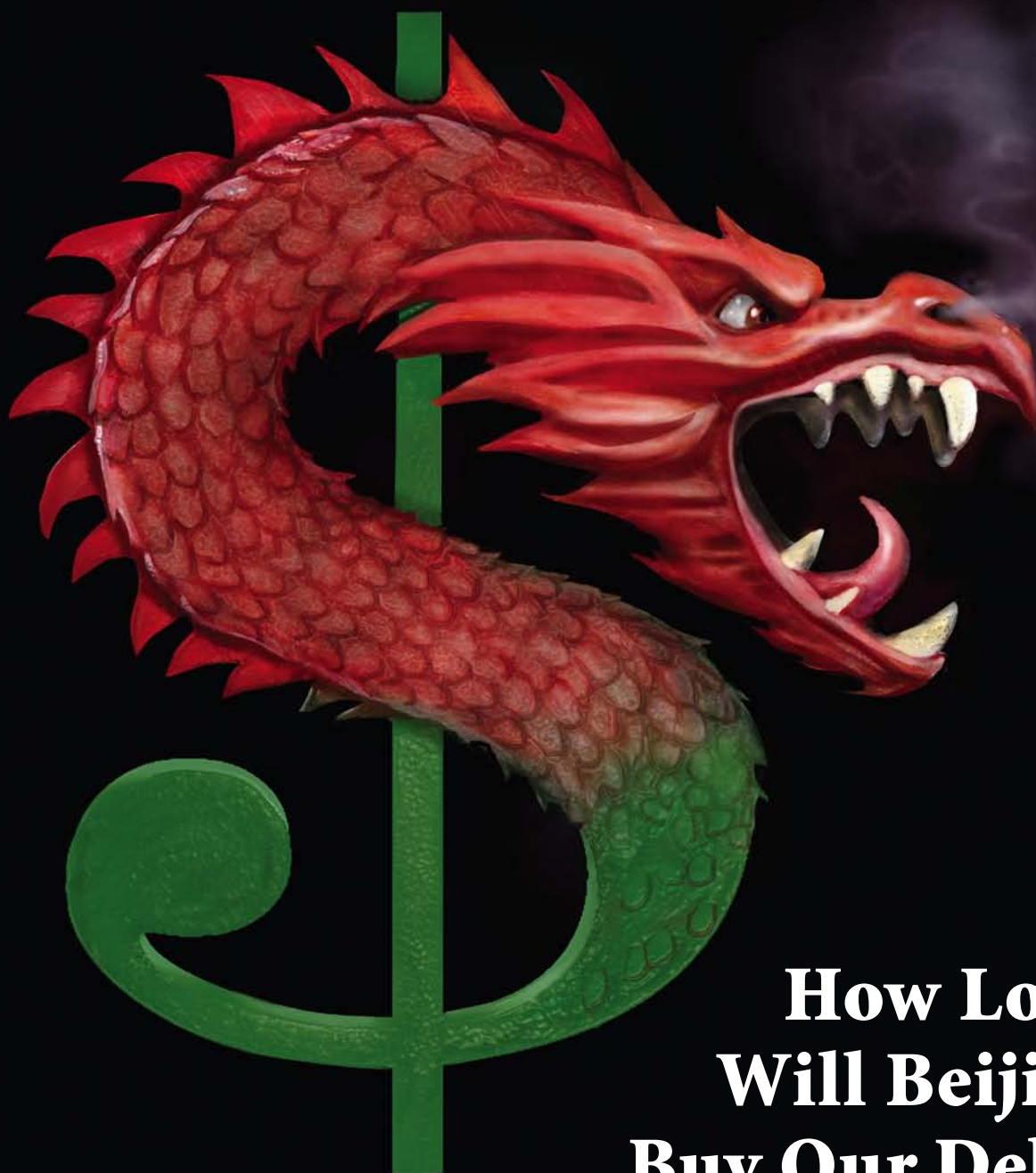


CARTER WAS RIGHT ■ GILLIBRAND REBRAND ■ TRILLION-DOLLAR QUESTION

APRIL 6, 2009

The American Conservative

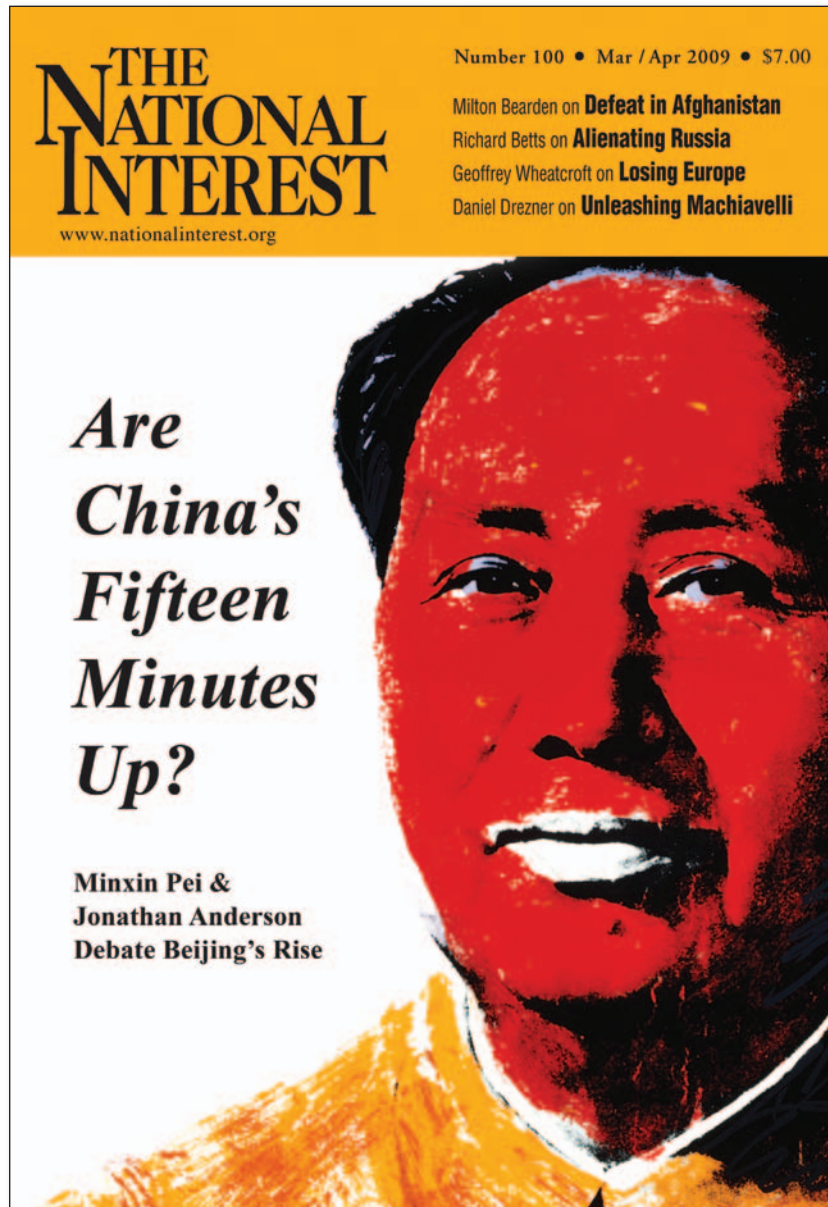
IN CHINA WE TRUST



**How Long
Will Beijing
Buy Our Debt?**

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STOP THE PRESSES

A year ago, one rarely saw the word “trillion” in print, excepting discussions of the national debt and the GDP. But now? The Congressional Budget Office forecasts a federal deficit of \$1.8 trillion for 2009 alone. And even that sum pales next to the Federal Reserve’s plans to expand its “balance sheet”—assets such as long-term Treasury bills purchased with money run right off the printing presses—to more than \$4 trillion this year.

Weimar Germany experienced the madness of milliards (billions). We may be in for the terror of trillions. The Fed’s March 18 announcement of a mere \$300 billion buy of long-term Treasury bonds sent the dollar plummeting by 3 percent against a basket of its six major competing currencies. And the decline has not stopped there.

As extraordinary as the Fed and Treasury’s actions are, they still may not stop deflation in the short term, as unemployment escalates and banks refuse to lend. Financial analyst Mike Shedlock notes that even if one could perfectly counterfeit \$1 trillion in cash, it would not cause inflation as long as the bills were buried in a hole in the ground. Right now, our banks are that hole.

But once they think the worst is over and begin lending again, watch out. The dollar crisis that Congressman Ron Paul has long predicted will finally be upon us. The (last?) best hope for averting the annihilation of the dollar may be Paul’s HR 1207, a bill to audit the Fed and reveal by just how many trillions Bernanke and friends have been ripping us off.

[BAILOUT]

DEFAULT SETTING

Some major banks are already responding to the Geithner rescue plan—by buying mountains of bad paper.



THE SORCERER'S STIMULUS

Citibank and Bank of America have started collecting mortgage-backed securities, those complicated financial instruments that helped cause the meltdown. Recently AAA-rated MBS were only being bought by hedge funds at about 30 cents on the dollar. Now Citi and BoA are bidding them up. Worse, the two banks are likely buying these securities with TARP funds; they each received about \$45 billion. Those bailout dollars were authorized so that banks could shed bad paper, not gather more of it.

The securities that Citi and BoA are buying are the ones most experts predict will be next to go into default. But the government has promised to buy these instruments if they turn out to be toxic. So the banks will make a killing by scooping up distressed assets at low prices then waiting for the government to inflate their value or buy them outright.

Jeffrey Sachs writes in the *Financial Times* that the Geithner plan “is a thinly veiled attempt to transfer up to hundreds of billions of dollars of US taxpayer funds to the commercial banks by buying toxic assets from the banks at far above their market value.” The banks will be recapitalized, yes. But

whether by higher taxes of inflation, Americans will get the bill for this short-term profiteering.

[WORLD]

VIDEO DIPLOMACY

Foes of the “axis of evil” discourse that opened the door to so much havoc in the Middle East should welcome President Obama’s gracious New Year’s video message to Iran. It signaled a fundamental break with the Bush administration’s rhetoric about “Islamofascism” and its refusal to view Iran as a country with concrete interests and genuine security problems. Obama was respectful and lucid, setting off a race among neocon pundits to see who could first label his greeting Chamberlinesque.

No sane person would expect that Tehran’s response would be all sweetness and light. Iran very much feels it is both the wronged and endangered party in the relationship and has substantive reasons for its opinion. Nevertheless, the uniform American press accounts of Tehran’s “rebuff” to Obama suggest that Iran’s response was entirely negative. This wasn’t the case.

Iran’s Ayatollah Khamenei replied with a mix of fairly stern rhetoric and the

comment "Of course we have no prior experience of the new president of the American republic ... and therefore we shall make our judgment based in his actions." Iranian TV headlined this "Iran vows response to real US change" and the European press reported that Iran was "ready to change if US leads way."

One key aspect of the exchange was Israel's attempt to throw mud on it, or so it seemed to some savvy observers. One day after Obama's greeting, Israel's Shimon Peres sent his own message to Iran. M.J. Rosenberg speculated, "Peres, who is an uberhawk on Iran, suddenly sends 'greetings' to the Iranian people urging them to rise up against their government at the same moment that Obama respectfully addressed the 'Islamic Republic of Iran' with the most conciliatory US message in decades. Coincidence? Maybe. Of course, the Iranians would not view it that way. They would see America and Israel playing 'good cop, bad cop,' diminishing the effect of Obama's remarkable overture." Rosenberg reports that the White House was furious.

The last thing Israel wants is fruitful negotiation between the U.S. and Iran. Those who recall the 1954 Lavon affair will recognize that Israel has more arrows in its quiver to keep Washington and Tehran's relationship hostile.

[IRAQ]

GO HOME, AMERICA

"Dramatic Advances Sweep Iraq, Boosting Support for Democracy," headlined ABC News. A broad new survey, co-sponsored by the network, showed that Iraqis feel increasingly safe and optimistic. Of the 2,228 Iraqis polled, 64 percent answered that today—*mirabile dictu*—their preferred form of government is democracy.

Cue the proud beat of the War Party drum. Here was further proof, it was said, that freedom has taken root in

Mesopotamia. The surge had succeeded: "Who said it couldn't work?" defied Michael Goldfarb on the *Weekly Standard's* blog.

Such self-congratulation only goes so far, however. In fact, the survey suggested that anti-Americanism in Iraq is stronger than ever. Sixty-two percent of Sunni Iraqis said that America had done "a very bad job" in Iraq—up 9 percent from last year. Moreover, 46 percent wished that U.S. forces would leave before the scheduled 2011 withdrawal, compared to 35 percent who believed the timeline to be right.

Muntadar al-Zaidi, the journalist who in December hurled his shoe at President Bush, was hailed as "a hero" by 62 percent of respondents. And it's not as if Iraqis are enthused about Bush's progressive successor: a majority said President Obama would "not make much difference," 20 percent even reckoned the new commander in chief would make their lives worse.

It is cheering that Iraqis think things are getting better. But what makes them happier still, it seems, is that soon their country might be free from American interference.

[DEFENSE]

DON'T MENTION THE WAR

In March 2009, the Global War on Terror stopped. A Pentagon directive, leaked to the *Washington Post*, urged officials to avoid using the infamous Bushian non sequitur. In the Obama administration, it said, the appropriate euphemism is "Overseas Contingency Operation."

By the next day, however, GWOT was back on. OMB Director Peter Orszag stood by the term, insisting that he never approved any change in language. Hours later, as if to prove the point, the Pentagon revealed a new list of terrorist targets for drone attacks along the Afghanistan-Pakistan border. Even meaningless words matter. ■

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[debt collector]

Banking on Beijing

China's priority is saving itself, not sinking the dollar.

By Philip Delves Broughton

THERE ARE TWO WAYS to interpret the fact that China is America's largest creditor at a moment of stupendous American borrowing. The first is as an economist. And we'll get to that. But the second is as a thriller writer—or paranoid economic and political nationalist—and it is much, much juicier.

The thriller scenario begins in the blood-red corridors of the Zhongnanhai leadership compound in Beijing, next door to the Forbidden City. Here China's political elite has been plotting their usurpation of American power for decades. Bent over their Lenovo Thinkpads, the brilliant sons of Communism have engineered nothing less than a global revolution.

Dissolute, wasteful, crass America has been rotting, borrowing and spending, licking lead toys and watching "The Girls Next Door." Meanwhile, diligent, thrifty, clever China has been preparing to take its place, squirreling away money and buying American debt.

Poor America thinks only in four-year election cycles, cackle the Beijing bureaucrats, whereas China thinks in hundred- and thousand-year spans, in vast historical revolutions that must inevitably turn in their favor.

Does any issue sum it up better than patent infringement? "We can't do business with a country which pirates 'The Dark Knight' and Microsoft Office," screams America. "Fine," say the Chi-

nese, "But did we ever see a penny from our invention of paper?"

And so, in the spring of 2009, the time came for China to spring its trap.

As with the assassination of Archduke Ferdinand in 1914, no one believed so trivial an incident as the hassling of a U.S. naval ship in the waters of the South China Sea could precipitate the events that followed.

Sunday, March 8, 75 miles south of Hainan Island. The USNS *Impeccable* was cruising in international waters, dragging behind it a Surveillance Towed Array Sensor System (SURTASS), a listening device used to pick up underwater acoustical data, notably submarine movements.

Suddenly, five Chinese boats appeared and surrounded it, one coming within 25 feet. A Chinese sailor produced a grappling hook and tried to snag the *Impeccable's* SURTASS. The *Impeccable's* crew sprayed him and his ship with a fire hose. The Chinese sailors undressed down to their underwear and kept coming. One boat tossed wood into the water ahead of the *Impeccable*, forcing it to stop. Two hours later, Chinese fighter planes flew low over the American ship.

The *Impeccable's* captain said Chinese harassment had increased markedly during the previous week, but he had no idea why. The Pentagon maintained that the Chinese have vastly under-reported their military spending and cloaked their

intentions for years. Was the truth now starting to emerge? Was China's pesky aggression a sign of worse to come?

The following Friday, March 13, China's premier, Wen Jiabao, followed the military attack with an assault on America's credit-worthiness. "We have lent a huge amount of money to the U.S.," he said. "Of course we are concerned about the safety of our assets. To be honest, I am definitely a little worried."

With the U.S. Treasury rolling out ever more plans to borrow and spend, this was no time for one of the biggest acquirers of its debt to be making violent choking sounds.

Or was it the perfect time? With America on its knees, was this not the ideal moment to trigger the shift of power from Washington to Beijing? Would China now dump its U.S. assets, render the dollar worthless, and emerge triumphant from the wreckage of the global economy?

Get me Harrison Ford.

The truth may be more mundane—unless, of course, you are a keen follower of the patterns of global credit, in which case these are riveting times.

China's massive acquisition of American assets in recent years, from Treasury bills to corporate bonds and equities, seems to have many people spooked. The way they talk about it, you would think some tattooed goon, seconded from a Macao casino, had cor-

nered Lady Liberty and was demanding she pay the vigorish.

China, according to this thinking, is not someone to whom you want to owe money, especially if like America you are already in a deep financial hole and asking to dig further. China's motives are not aligned with America's interests. Owe them too much and one day you'll pay a far heavier price than you imagined.

In fact, Chinese lending and U.S. borrowing have become so fundamental to the success of their respective social and economic models, and the stability of the global economy, that a quick unraveling would be a form of mutually assured destruction. There is no easy way out of the relationship for either country unless they wish to tumble like Holmes and Moriarty into the roaring Reichenbach Falls.

China's huge dollar reserves are merely a symptom of an economic fix of its own making. Ever since Deng Xiaoping introduced his economic reforms to China 30 years ago, the country's growth has been driven by exports—mostly to the United States and Europe.

The export focus led to the creation of millions of manufacturing jobs, which in turn served the primary goal of China's leaders, to ensure social stability through employment and prosperity. China's factories duly became the last stop on the global assembly line, taking in imports from more advanced Asian economies such as South Korea, Taiwan, and Japan, repackaging them, and sending them off by container ship.

Crucial to this strategy was a weak currency. If the renminbi climbed, as it should have given China's growing economic power, the value of Chinese exports would rise and their competitiveness fall. So Beijing acted aggressively to keep the renminbi at a consistent level against the dollar. Until 2005, there was a fixed peg. Since then, the renminbi has been allowed to float and

has drifted up by around 20 percent, though it still trades well below where most economists believe it should.

How the Chinese achieved this explains much of the present situation. First, the Chinese central bank simply printed renminbi to dilute the existing pool and buy foreign currencies. Then, fearing inflation, they bought back their own currency by issuing bonds and raising capital requirements on Chinese banks, which must now turn over some 20 percent of their cash deposits to the government.

In addition, China lent to its biggest export market by investing in dollar-denominated securities, notably those issued by the United States Treasury and government agencies like Fannie Mae and Freddie Mac. This kept the dollar healthy and Chinese exports relatively cheap.

For years, this policy of keeping the renminbi low against the dollar and using the dollar trade surplus to lend back to the United States to buy more Chinese goods worked. But it was a policy, like a Ponzi scheme, that became all but impossible to reverse and was merely putting off the cost China would one day have to pay for its explosive growth.

As Brad Setser, a global economic analyst at the Council on Foreign Relations, has written, "The benefits—rapid export growth, lots of investment in the export sector—associated with China's exchange rate policy were front-loaded while the costs—export dependence, losses on China's reserves—were back-loaded. The bill for subsidizing China's exports during the boom is just now coming due."

One consequence of this is that China's leaders now view America's economic challenges from two different, often conflicting, perspectives. On the one hand, China is America's largest foreign creditor. U.S. Treasury and government agency securities are now estimated to

comprise \$1.25 trillion of China's American portfolio. Another \$250 billion or so is believed to be split between U.S. corporate bonds, money-market funds, and equities. American assets are believed to comprise 70 percent of China's foreign reserves, with most of the rest held in euros. The numbers are murky as China's foreign investments are handled by a number of entities, some in Hong Kong, whose holdings are not disclosed.

If America runs up more debt than it can reasonably repay, the value of China's U.S. holdings will fall. Thinking as a lender, China would rather America tightened its belt, cut its expenses, and focused on paying back its existing debts. It wants America to keep the dollar strong and interest rates low to preserve the value of its bonds.

But if the U.S. economy does not recover quickly, whether through government stimulus or other means, China's entire growth and export-driven economy risks unwinding. If one accepts that the size of China's reserves is a sign of its devotion to the goal of social stability, of which the export economy is simply the means, then Beijing must be willing President Obama's borrowing plans to succeed. Dollar be damned, China needs the American consumer to buy Chinese goods and sustain Chinese jobs.

In this context, Wen Jiabao's fretting over a fall in the value of China's foreign reserves, its rainy day fund, is like complaining about a dripping tap when water is pouring in from the ceiling. Even if the value of China's U.S. portfolio were to fall by 30 percent, it would cost the Chinese around the same as their recent \$586 billion stimulus plan. If the whole lot, a sum equivalent to one seventh of America's GDP, were to go up in smoke, China would remain solvent. Except that would also mean that the United States' economy had ceased to exist, which would be a considerably larger problem.

From America's perspective, China's fussing is a mild concern. If China were to stop lending money to the United States, there are other sources of capital in the world. There are plenty of investors, including American investors, who still see the full faith and credit of the United States government as a decent bet.

And realistically, where else is China going to go? It has already tried to use its economic muscle to patch together a network of oil suppliers around the world to immunize itself from price movements and supply disruptions by cutting deals with Iran, Sudan, and Angola. But it still depends on global supply for 95 percent of its energy needs. This policy of going where squeamish rivals fear to tread has also led it to become the largest trading partner of Iran, North Korea, and Sudan and the second largest of Burma and Zimbabwe. You scarcely need to be the UN High Commissioner of Human Rights to understand this is not the Peoria Chamber of Commerce.

The China Investment Corporation, a sovereign wealth fund, and the State Administration of Foreign Exchange (SAFE), a shadowy body with responsibility for managing China's foreign reserves, have made a number of investments in Western financial firms in recent years. Two years ago, the Chinese paid \$3 billion for a stake in the Blackstone Private Equity Group. The value of that has fallen by around 75 percent. In December 2007, the CIC paid \$5 billion for a 10 percent stake in Morgan Stanley. That has since fallen by more than half.

The Chinese were reportedly stunned by their losses in Lehman Brothers and by the lack of support they received from the U.S. government. When Fannie Mae and Freddie Mac were close to collapse, only intervention by the Bush administration saved the Chinese from dramatic losses on hundreds of billions of dollars in mortgage-backed securities. Since then, the Chinese have sold

their government agency securities and bought short-term Treasury bills, which carry less risk.

In fact, when you decompose the risks and returns on China's portfolio, U.S. Treasuries may well be its soundest investment. Singapore's vaunted Temasek sovereign wealth fund, for example, lost 31 percent of its value last year. Had China followed Temasek's investment strategy, or indeed Blackstone's, instead of buying boring old Treasuries, Wen Jiabao would have thrown himself into the Yangtze.

Over the next few months, the extent of China's buying of U.S. assets will be closely watched. The World Bank forecasts that China ran up a \$425 billion current account surplus in 2008. It has to put the money somewhere, and there is already a surfeit of domestic credit. That cash, perhaps the last of the great savings glut piled up in emerging markets over the past decade, has to go overseas.

The appetite of foreign central banks for U.S. Treasury securities is already falling as the global economy contracts. But for the next few months at least, long enough for President Obama to get his stimulus funding in place, the money, with China's help, should be there.

And then what? Then the really hard work begins for China. Wen Jiabao has conceded that the government target of 8 percent growth this year, necessary to contain unemployment, is unrealistic. He has called on China's businesses to "focus on adjusting product structure, improving quality and upgrading technologies in the face of economic woes." It is high time, he was saying, for China to move up the economic value chain, to go from sweatshop to design shop, to develop its domestic markets and create investment opportunities for its own citizens.

The reason the Chinese save so much is not because they are better than us or because they all read Suze Orman. They save because they have nothing to buy

or to invest in and because they are terrified that when they get sick or grow old or have to educate their children, the state will not help them.

China's priorities are territorial integrity and economic growth, not bankrupting the United States. Growth can only continue with greater economic liberalization and a move away from the government's mercantilist policies, notably its insistence on using an artificially low currency as its main competitive weapon. For all of its success, China's GDP per capita still ranks only 100th in the world. It is a woefully inefficient consumer of energy, a rank polluter, and a poor provider of educational and health services to its people. If you think the United States has problems, try living in Guangzhou Province, the heart of China's manufacturing industry, where millions of migrant workers are struggling to find work.

The stark facts of China's relative position to the United States are these: China has four times the people and one quarter the GDP.

Wen Jiabao is within his rights to express concern about his investment in the United States. But he must also acknowledge that China's ability to convert its surplus into loans to Americans has been crucial to China's economic growth.

Had China pursued a different strategy over the years, letting its currency float, liberalizing its markets, and stimulating domestic consumption, its progress may have been more uneven and less predictable. It would have had a different set of problems to face today—problems that might have looked more like America's. ■

Philip Delves Broughton is the author of Ahead of the Curve: Two Years at Harvard Business School and a former New York and Paris correspondent for The Daily Telegraph.

Leftward No!

Will Obama's bailouts cost him his base?

By W. James Antle III

IS TIMOTHY GEITHNER a toxic asset? A lot of liberals apparently think so, and they are not planning to bail him out. The tax-troubled Treasury secretary finally unveiled a program that was well received on Wall Street, but his gambit to have the federal government purchase bad bank assets sent his stock among liberal commentators into freefall.

New York Times columnist and Nobel laureate economist Paul Krugman blasted Geithner for persuading President Obama to “recycle” the Bush administration’s “cash for trash” policy. “This is more than disappointing,” Krugman lamented. “In fact, it fills me with a sense of despair.” Arianna Huffington was even blunter, saying, “just take the steering wheel out of Geithner’s hands.” Fellow liberal blogger John Aravosis opined, “I don’t like the idea of piling on our new president so early in his tenure, but Geithner has lost the public confidence.” Markos Moulitsas of Daily Kos, dean of the netroots, concluded, “Geithner is starting to look like Obama’s Rumsfeld.”

Those are fighting words and an interesting backdrop to the administration’s first real conflict with its activist liberal base. For the most part, mainstream progressives were willing to be patient as their president backslid on civil liberties and failed to break as decisively with his Republican predecessor’s national-security policies as they had hoped. But the payout of \$165 million in retention bonuses to AIG executives—beneficiaries of a bailout that many serious liberals backed reluctantly if at all—made them very angry.

“Unacceptable,” blared an e-mail to readers of the popular liberal blog Firedoglake. “Americans who have lost their jobs can’t afford healthcare,” wrote Jane Hamsher and her associates, “but AIG used our tax dollars to give out \$450 million in bonuses to the executives who recklessly brought the company down.” Nor did they spare Obama aides who seemed reluctant to intervene: “White House economic advisor Larry Summers says the government simply can’t break the contracts that AIG had with executives, but nobody said that when Congress demanded that auto makers break union contracts and cut hourly wages for factory workers as a condition of receiving TARP funds.”

Glenn Greenwald wrote scathingly about the “sanctity of AIG’s contracts” on his blog at *Salon*. He described the Obama administration’s “claim that nothing could be done about the AIG bonuses because AIG has solid, sacred contractual commitments to pay them” as “absurd on its face.” A blogger at Talk Left wrote, “As 80 percent owners of AIG, the federal government seems well positioned to instruct that AIG not pay out the bonuses.”

Adam Nagourney reported in the *New York Times* on March 15: “The Obama administration is increasingly concerned about a populist backlash against banks and Wall Street, worried that anger at financial institutions could also end up being directed at Congress and the White House and could complicate President Obama’s agenda.” That backlash has arrived, and like the

debate over last year’s \$700 billion bailout, it cuts across traditional political lines.

Until their congressional leadership caved, it appeared that Republicans were going to defy President Bush and doom the Troubled Assets Relief Program. The “no” votes ended up reading like a Who’s Who of the most liberal and conservative members of Congress, though the pro-bailout majority was just as ideologically diverse. House Republicans split down the middle in the vote on a 90 percent tax on bonuses for employees of companies receiving federal aid. The bill was written by liberal Democrats like Congressman Barney Frank of Massachusetts.

Yet the anger over the antics of corporate-welfare queens is most intense on the Left and online. The sense that the Obama administration was tilted too much in favor of banks and corporate interests rather than the bread-and-butter concerns of the American Left reverberated throughout the netroots. Firedoglake collected thousands of signatures from perturbed liberals who demanded that the bonuses be taken from the executives and returned to their rightful owners: the American taxpayer.

“The indignation over AIG will serve a useful purpose if it focuses public attention on the much larger issue—the failure of the entire approach that Treasury Secretary Tim Geithner and White House economic czar Larry Summers are using to rescue the banking system,” argued liberal journalist Robert Kuttner. “It would be hard to find two administra-

tions more different than Bush and Obama. Yet when it comes to bailing out financial firms, Geithner's approach is a seamless continuation of his predecessor, Hank Paulson's."

So far, things are working out as Kutner predicted. The outrage over the AIG bonuses has prompted the Left to be much more united in—and vocal about—their opposition to the way the federal government has gone about trying to rescue the financial sector. Some want to stop the bailouts cold, the way conservative intellectual Charles Murray once called for effectively abolishing welfare. Many more want to use the corporate welfare state to reshape the behavior of those leading the troubled institutions with strict regulations on executive compensation and corporate conduct.

"Not one dime for greedy AIG execs while unions have to compromise and working families go without health care," declared one progressive e-mail. "Not one dime!" Others have blasted the Geithner plan as "welfare for hedge fund managers." This is certainly louder than the liberal criticism of Bill Clinton, who spent much of the 1990s irritating activists to his left by being too cozy with corporate interests. But in Newt Gingrich, Ken Starr, and Rush Limbaugh, Clinton had the right enemies. Anti-Clinton sentiment on the Left had no serious political impact until Ralph Nader stunned Al Gore in 2000.

Even so, the critique of Obama is limited. Much of the invective is hurled at Geithner, Larry Summers, Rahm Emanuel, and other reputedly centrist members of the administration, not Obama himself. Many liberal bloggers continued to defend Sen. Chris Dodd after the Connecticut Democrat came under fire from conservatives for his role in AIG bonuses. In some ways, it is reminiscent of the talk-radio Right's periodic rebellions against George W. Bush: the harshest criticisms were directed at

"RINO's" in the president's midst, but conservative commentators could not quite bring themselves to break with their leader in the White House.

That said, almost every time the talk-radio Right seriously opposed a Bush administration initiative—amnesty for illegal immigrants, the Harriet Miers Supreme Court nomination, the Dubai Ports World deal—the president's conservative critics won. Bush tended to get his way only where the criticism was muted (the Medicare prescription-drug benefit) or practically nonexistent (Iraq). When Rush and the lesser Limbaughs encouraged their millions of listeners to jam the White House and Capitol phone lines, Republican leaders meekly backed down.

The liberal blogosphere is even better situated to put pressure on the Democratic Party because its most popular members have a level of involvement in practical politics few radio talk-show hosts can match. The netroots has been heavily involved in organizing liberal activists, raising the profiles of formerly obscure Democratic candidates, and raising funds for Democratic campaigns. Although they've lost some battles—Joe Lieberman's re-election over Ned Lamont surely stung—there are Democrats in Congress who have as much reason to thank Daily Kos as the 1994 Republican freshmen had reasons to appreciate Limbaugh.

And unlike conservative talk radio, which only occasionally throws its weight around during competitive primaries and mostly boosts Republicans against Democrats, the netroots has focused on the Democratic Party's internal politics. The launch of the Accountability Now PAC, supported by the Service Employees International Union as well as Hamsher, Greenwald, and Moulit-sas, could enlarge that role in the 2010 midterm elections. Accountability Now's mission: to "recruit, coordinate, and sup-

port primary challenges against vulnerable Congressional incumbents who have become more responsive to corporate America than to their constituents."

In other words, Democratic Leadership Council types beware. Some of these moderate Democrats recently made themselves easier to spot by joining Indiana Sen. Evan Bayh's centrist working group. "If they start acting in a really regressive way to keep the systemic change from happening ... then you focus on the leadership first, but you also go after the weak ones," Hamsher told the *Denver Post*. "If somebody is vulnerable, if a challenger comes forward and says they're going to take someone on, those are the ones we look for."

Other progressive groups are also willing to target fellow Democrats when they stand in the way of hope and change. The liberal activist outfit USAction has announced it will launch a television advertising campaign to pressure four Blue Dog Coalition members on the House Budget Committee to support Obama's budget. The members are Marion Berry of Arkansas, Allen Boyd of Florida, Charlie Melancon of Louisiana, and Chet Edwards of Texas, all of whom have been critical of the deficit spending contained in the president's budget plans.

It remains to be seen what circumstances might cause disaffected liberals to launch a frontal assault against the president himself when he fails to deliver. Another unanswered question is whether they will be open to a strange-bedfellows coalition with bailout opponents on the Right, especially the less conventional conservatives of the Ron Paul movement. But one thing is clear: committed liberals are tired of Obama's Rumsfeld and don't want to wait until the midterms for their domestic-policy surge. ■

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The Weimar Way

"THE BEST WAY to destroy the capitalist system is to debauch the currency," said Lord Keynes.

Ben Bernanke disagrees. A student of the Depression, the Fed chair appears far more fearful of deflation—a vicious cycle of falling prices, debt defaults, home foreclosures, and rising unemployment.

Deflation is what America underwent in the 1930s. A Fed-created bubble burst, causing margin calls to go out to stockholders, who ran to their banks that, besieged, collapsed, wiping out a third of our money. As Milton Friedman, who won a Nobel for his thesis that the Federal Reserve caused the Great Depression, told PBS in 2000:

For every \$100 in paper money, in deposits, in cash, in currency, in existence in 1929, by the time you got to 1933 there was only about \$65, \$66 left. And that extraordinary collapse in the banking system, with about a third of the banks failing ... with millions of people having their savings essentially washed out, that decline was utterly unnecessary. ... The Federal Reserve had the power and the knowledge to have stopped that. And there were people at the time who were ... urging them to do that. So it was ... clearly a mistake of policy that led to the Great Depression.

Is Bernanke fighting the war of 1929 in 2009? Surely, today, with the explosion in M1, the basic money supply, there is no shortage of dollars out there, even if they are not circulating fast enough.

To end our recession, Bernanke may be running an even greater risk: hyperinflation. This has destroyed more nations than deflation or even depression.

Recall: It was French military intervention in the Ruhr in 1923, to force payment of war reparations, and Weimar's decision to let the currency fall and pay the French in cheap marks that led to the wipeout of the German middle class, the discrediting of that democratic republic, and the Munich beer-hall *putsch* of Adolf Hitler.

"The first panacea for a mismanaged nation," said Ernest Hemingway, "is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists."

Which brings us to last month's shocker. The Fed will buy up \$300 billion in long-term Treasury bonds and spend \$750 billion more buying subprime mortgages to remove them from the balance sheets of ailing big banks, to get the banks lending again. Bernanke is printing money to buy U.S. bonds.

This new gusher from the Fed, after the \$700 billion TARP bailout, comes on top of a Congressional Budget Office estimate that this year's deficit will be \$1.85 trillion, 13.1 percent of gross domestic product, more than twice the share of the U.S. economy of the largest previous postwar deficit.

Concluding the dollar is being abandoned in a frantic Fed effort to stop the recession, markets reacted instantly. The dollar plunge was the steepest since the Plaza Agreement of 1985. Gold shot up to \$950 an ounce. Silver had a 12 percent run-up, the sharpest ever. Oil prices surged above \$50 a barrel. Commodity markets advanced.

The Fed seems to have confirmed the fears of Premier Wen Jiabao, who said that China is "definitely a little worried" about the value of the U.S. bonds Bei-

jing has purchased with the dollars piled up from her trade surpluses with the United States.

Can one blame the Chinese? They have already been burned on their U.S. investments. And if the defense of the dollar against its ancient enemy inflation is being abandoned, and protecting the dollar is to take a back seat to the Fed's fight to avoid deflation, then it is indeed time to get out of the dollar and dollar-denominated assets.

For inflation is theft. It makes liars and cheats of governments. By eroding the value of a currency, inflation punishes savers and creditors and rewards debtors. And what nation is the biggest debtor of them all? The United States of America.

Insidiously, inflation consumes the value of cash, savings, municipal bonds, corporate bonds, Treasury bonds, and T-bills. Friends who lent America money, who bought our debt in good faith, are robbed and made fools of, while speculators who bet against America by shorting the dollar in the currency markets are vastly rewarded.

Given the \$3.6 trillion budget Obama plans, the \$1.8 trillion in red ink he will run by October and the trillions the Fed is pumping into the economy, gross domestic product should spike, as it did after the far smaller stimulus package of 2008. We will feel a healthy glow, and folks will begin to sing, "Happy Days Are Here Again."

Yet one senses that we are doing again exactly what we have done before in this generation. Rather than endure the pain and accept the sacrifices to cure us of our addiction, we are going back to the heroin. And this time, with Dr. Bernanke handling the needle, we may just overdose. ■

Rebranding Gillibrand

Can New York's junior senator remain a conservative Democrat?

By Michael Brendan Dougherty

WHEN DEMOCRATS swept into the House in 2006, their new majority was constructed by moderates like Kirsten Gillibrand. Like many freshman Democrats that year, she campaigned against corruption—her opponent, incumbent John Sweeney, was tangled in a lobbyist scandal and his wife had filed a police report alleging abuse. Gillibrand won her upstate New York district by running to the right: she campaigned against amnesty for illegal immigrants, promised to restore fiscal responsibility to Washington, and pledged to protect gun rights. After winning by six points, she joined the conservative-leaning Blue Dog Coalition.

Gillibrand kept her word. In her first term, she voted against McCain-hatched immigration reform, assailed Bush's bailouts, and received a perfect 100 percent rating from the NRA. She crushed her Republican challenger by 24 points in 2008 and bragged that her voting record was "one of the most conservative in the state." Now, after her surprise appointment to fill Hillary Clinton's vacant Senate seat, liberals in the media, in her party, even in her expanding staff are determined to teach this Blue Dog new tricks.

In a much-noted editorial, the *New York Times* asked, "Can she represent a constituency beyond the narrow politics of her district, where she has been a bullet-headed opponent of gun control, proudly basking in ... extremist affections?" Columnist Maureen Dowd lamented, "So now we have an N.R.A. handmaiden in Bobby Kennedy's old

seat?" *Crain's* called her votes against the financial services bailouts "politically expedient" and said that she "should be disqualified" from serving in office.

The attacks got personal. The *Daily Beast* called Gillibrand, a mother of two young children, "a bizarre version of Sarah Palin." Glenn Thrush, the left-leaning *Politico* writer, led a story about her appointment with the rumor that her colleagues called her "Tracy Flick," after the ambitious blonde suck-up from "Election." Joe Conason speculated in *Salon* that Gov. David Paterson picked Gillibrand only to boost his own falling poll numbers and described her support for "Pay As You Go" budget rules as "mindless."

Even her colleagues began to turn on her. Carolyn McCarthy, the congresswoman whose husband and son were shot by Colin Ferguson on the Long Island Railroad in 1993, said, "I don't think someone with a 100 percent NRA rating should be the next senator from New York." McCarthy vowed to run against Gillibrand in the special election of 2010 if she doesn't change her views. Jon Cooper, another Long Island legislator, has hired a public-relations firm to explore a primary run. He has criticized Gillibrand for her inconsistency on issues ranging from the Iraq War to guns and gay marriage. "I don't pander," he says, "I try to reflect the ideas of my party." Cooper could become the "history-making" alternative to Gillibrand as the first openly gay U.S. senator.

In addition, ten prominent New York Democratic legislators have signed a letter asking the state party to withhold its support from Gillibrand. June O'Neill, the NYSDC chair, told *TAC*, "We have always given our officials equal access to committee resources and we will continue to do the same moving forward."

Some of Gillibrand's opponents may have trouble labeling her as a flip-flopper—McCarthy is a former Republican—but their threats are putting pressure on the newly appointed senator.

In order to mollify these disgruntled Democrats, New York senator Chuck Schumer suggested that Gillibrand go on a listening tour "from Bayside to Bed-Stuy, from Tottenville to Eastchester." Referring to his differences with her on gun issues, he assured the media, "her views will evolve to reflect the whole state." The statement was particularly rich coming from Schumer, who with Rahm Emmanuel worked hard to recruit unconventional candidates like Gillibrand and then helped them build issue profiles that would win over their conservative districts.

But Schumer's prediction seems prophetic. At first, Gillibrand told reporters that she kept two rifles under her bed. By the next morning, downstate papers were teasing her, so she called the media again to say that, for security reasons and because of her young children, she had locked the rifles away. Within a month of her listening tour, she signed a letter to Attorney General Eric Holder asking for a repeal of the NRA-backed Tiahrt amendments,

which prohibit the government from sharing information from its firearms trace database with anyone except law enforcement or prosecutors pursuing criminal investigations. A year earlier, she had sought to make the amendments permanent.

She has even accepted Schumer's rationale that her position on gun rights is geographically determined. "In some of the downstate communities these [gun control issues] are top priorities. I didn't have any big towns in upstate New York," she said.

And guns are not the only issue on which Gillibrand is proving flexible. As a congresswoman, her proposed solution to the immigration crisis was simple: more border guards and fences, no amnesty or path to citizenship for illegals. Americans for Better Immigration, a restrictionist group that pushes for tighter immigration enforcement and a reduction in immigration, gave Gillibrand's congressional record a "B" grade, which made her their 22nd-best Democratic legislator in the country.

Chung-Wha Hong, executive director of New York's Immigration Coalition, met Gillibrand's appointment to the Senate with a terse press release saying her "positions on immigration ... are deeply troubling" and that she "must reconsider her positions." Theodore Ruthizer, a New York immigration lawyer and past president and general counsel of the American Immigration Lawyers Association, told the *Times*, "I think she needs to be educated, frankly." It was a lesson Gillibrand seemed willing to learn.

She met with over a dozen Hispanic elected officials in late January and pledged to support the DREAM Act, which helps illegal-immigrant high school students obtain legal status. Though she spoke favorably of path-to-citizenship measures, she stopped short of calling for a halt to large-scale immi-

gration raids. *El Diario*, which had lambasted her as "anti-immigrante" weeks earlier, reported that after the meeting she "changed her tune."

But even the more evolved Gillibrand may not satisfy her critics. McCarthy has promised "to hold her feet to the fire" on guns. New York Assemblyman Peter Rivera, who had described Gillibrand as "xenophobic," said after meeting her, "It's too early to know whether this is going to have a long-term effect." And the *New York Times*, noting her quick switch from supporting civil unions to endorsing full gay marriage, was still cold to her, editorializing, "There's flexibility, and then there is rootlessness."

Watching Gillibrand's initial stumbles, Republicans sense an opportunity. A spokesman for the National Republican Senatorial Committee (NRSC) said that Gillibrand's selection "has angered the left wing and created a real schism in the Democrat Party." Peter King, the media-savvy Republican who represents a heavily Democratic district in Long Island, is exploring whether he can put together enough money to compete with Gillibrand's formidable fundraisers. Sen. John Cornyn, who heads the NRSC, has already met with former New York governor George Pataki. Though initial reports indicated that Pataki had little desire for a return to public life, a source close to the governor says that his interest has increased. A Siena College poll released March 23 had the former governor and the new senator tied at 41 percent. Rudy Giuliani has also been discussed as a potential challenger to Paterson or Gillibrand.

To stop the political fallout, Gillibrand has picked up the mantle Hillary Clinton left behind. She retained most of Clinton's New York staff to capitalize on their relationships with constituencies she has offended. She is also taking pointers from Howard Wolfson, a top

adviser from Clinton's presidential run. Both Schumer and Bill Clinton have appeared at Gillibrand fundraisers, and Ellen Chesler, a long-time Clinton friend, has organized meetings for Gillibrand with progressive media figures. Chesler said, "I think she just has to now present herself as the very serious, very well-informed, very progressive candidate that she is." This endorsement comes only two months after Gillibrand described her own record as "one of the most conservative" in the Empire State.

In the next two years, Kirsten Gillibrand's career will test the viability of the Blue Dog project. Unlike her conservative Democratic Senate colleagues Jon Tester and Jim Webb, Gillibrand will face an election in 2010, and her first challenge will be to her left. If she continues to rebrand herself as a progressive, or loses to a challenger like McCarthy, the political class will conclude that conservative Democrats can only thrive in red states. The Democratic caucus will become more obedient to its liberal base and less diverse.

But if the recent modifications to Gillibrand's conservative views are only tactical and temporary, she will still be to the right of her Republican opponents on almost all issues but gay marriage. The only turf her potential GOP rivals have is their support for Bush's foreign-policy legacy—not a winner in New York. She has the fundraising apparatus and the independent record to become a national political figure. And her success would encourage Democrats to consolidate their power by ignoring the demands of far-Left interest groups and running to the center.

Gillibrand's rise has been bad news for Republicans since she made her debut in 2006. And she will continue to thwart the GOP from the Senate—as long as Democrats don't give her a progressive makeover. ■

Carter Conservatism

The 39th president's modest proposal

By Sean Scallion

JIMMY CARTER'S "Crisis of Confidence" speech, delivered from the Oval Office on July 15, 1979, has long been a symbol of Democratic defeat—and defeatism. Republican politicians from presidents on down have used it to tar Democrats as the party of "malaise," a word that Carter himself never uttered in the address.

Rarely has a speech so backfired. Yet what if the text, obscured by recriminations, turns out to be one of the most conservative presidential statements of the last 30 years?

It was delivered as the Carter presidency was beginning to crater, as the turmoil of the Iranian Revolution caused oil prices to rise, and gas shortages once again afflicted the nation as they had six years before during the Yom Kippur War. Anger over higher prices and long lines at the pumps threw the administration into disarray. Carter wanted to make another speech on the energy crisis, the fifth of his presidency. But his advisers thought it would be ignored, if not ridiculed. Only something bolder, broader, and different from any speech hitherto made by a president could transform the situation. As Pat Caddell, the president's pollster, wrote in the memo that was the genesis of the speech:

This crisis is not your fault as President. It is the natural result of historical forces and events that have been in motion for 20 years. This crisis threatens the political and social fabric of our nation. Yet, this crisis also presents the greatest opportunity for you as President to

become a great President on the order of a Lincoln, Wilson and Franklin Roosevelt. More interestingly, it presents you with the opportunity, so rare in American history, to reshape the structure, nature and purpose of the United States in fundamental ways which your predecessors could only dream.

From Caddell's point of view, the crisis was not really about gas or energy or anything that could be solved by legislation. In his polling data, he saw a crisis of spirit. For the first time since the Depression, Americans were no longer confident in the future. This was especially so as the great expectations of a "better world" of the 1960s became the disillusionments of the 1970s. By the end of the decade, the U.S. was facing both rising inflation and unemployment, a government that seemed to be a dysfunctional cockpit of brawling special interests, a world situation that was deteriorating in the aftermath of Vietnam, and an apathetic populace. Caddell thought Americans would be receptive to a speech that, instead of appealing to mom, apple pie, and the flag, laid out the nation's problems honestly and bluntly.

Such a speech could also catalyze the political transformation that Caddell had been looking for since the administration began, one that "devises a context that is neither traditionally liberal nor traditionally conservative, one that cuts across traditional ideology. ... What we require is not stew, composed of bits and pieces of old policies, but a funda-

mentally a new ideology."

Caddell's vision was Lincolnian in breadth and scope. He wanted Carter to deliver his own Gettysburg Address. Many within the administration thought Caddell had gone mad and tried to keep his ideas from the president. But Carter's thinking paralleled Caddell's. The president believed that the Vietnam War, the gold crisis of 1971, and the oil shocks had so hurt the economy with high inflation that Americans had begun to lose the standard of living to which they had been accustomed since World War II, a quality of life they saw as their birthright as leaders of the free world. This had caused the alienation that Caddell's polling picked up.

Carter felt the country was on an unsustainable course, and only through lower expectations, conservation, and sacrifice could the U.S. survive as a free nation—or at least "free" as Carter defined the term in his speech:

We are at a turning point of our history. There are two paths to choose. One is a path I've warned about tonight, the path that leads to fragmentation and self-interest. Down that road lies a mistaken idea of freedom, the right to grasp for ourselves some advantage over others. ... All the traditions of our past, all the lessons of our heritage, all the promises of our future point to another path, the path of common purpose and the restoration of American values. That path leads to the true freedom for our nation and ourselves.

Could Russell Kirk or Richard Weaver have said it any better if they were debating Ayn Rand? Carter defined freedom as self-sufficiency rather than the right to take resources from other nations for our own well-being. He even gave a nod to the populist “drill here, drill now” contingent who felt the country had enough resources already to be energy independent: “We will protect our environment. But when this nation critically needs a refinery or a pipeline we will build it. ... We have more oil in our shale alone than several Saudi Arabias. We have more coal than any nation on earth.”

This was not the speech of some America-hating leftist. Carter did not try to tear down the country, he simply wanted it to come together and direct itself toward a goal other than unlimited growth or unending progress. As Andrew Bacevich points out in *The New American Militarism*, the president recognized the high cost of empire:

In July of 1979, Carter already anticipated that a continuing and unchecked thirst for imported oil was sure to distort U.S. strategic priorities with unforeseen but adverse consequences. He feared the impact of that distortion on American democracy still reeling from the effects of the 1960s. So he summoned his fellow citizens to change course, to choose self-sufficiency and self-reliance and therefore true independence but at a cost of collective sacrifice and lowered expectations.

Self-sufficiency, discipline, sacrifice, conservation, independence, the striving for meaning and purpose beyond material wealth. All of these characteristics were once associated with conservatism, and they were all part of a speech given by a man who was naval officer, farmer and large landowner, small businessman, Sunday school teacher, and

Southerner. Does this not sound the background of a conservative?

In a nation that was proud of hard work, strong families, close-knit communities and our faith in God, too many of us now tend to worship self-indulgence and consumption. Human identity is no longer defined by what one does, but by what one owns. But we've discovered that owning things and consuming things does not satisfy our longing for meaning. We've learned that piling up material goods cannot fill the emptiness of lives which have no confidence or purpose.

Mr. Conservative himself, Barry Goldwater, said much the same thing when he accepted the Republican nomination in 1964: “There is a virtual despair among the many that look beyond material success for the inner meaning of their lives.” But just as Goldwater's words were of no help in the year of Lyndon Johnson's landslide, Carter's words did not prevent his defeat in 1980.

The speech was initially well received, and Carter's poll numbers went up. But all that goodwill was destroyed a few days later when Carter demanded the resignation of his entire cabinet. The serious tone of the speech was destroyed by a political gimmick.

There were other factors working against it. Carter's demands that the American people curtail their travel, obey the speed limit, and lower their thermostats only reinforced the image of the president as a humorless, puritanical schoolmarm. Trying to limit America's leadership role on the world as the Cold War heated up in late 1979 seemed ludicrous, if not downright dangerous. Moreover, Carter and Caddell failed to provide a vision of the new nation they were trying to create: Americans had no idea how or when all the sacrifices demanded of them would come to an end.

The Soviet Union's invasion of Afghanistan, along with the Iranian hostage crisis, brought a complete reversal in Carter's posture. He soon began talking about the “Carter Doctrine,” intervening militarily in the Persian Gulf to secure the imported oil he had earlier wanted to cap. He talked about reinstating the draft and increasing the military budget. Within seven months, Carter had essentially repudiated his own speech. That may have saved him against Teddy Kennedy's insurgent candidacy in the 1980 Democratic primaries, but it destroyed him intellectually against Ronald Reagan, who had no problem saying that Americans did not need to sacrifice anything.

Caddell and Carter had hoped the speech would create a new synthesis between the neoliberalism that emerged from the 1960s and the traditional conservatism of, say, the Nashville Agrarians, but the exact opposite took place. Instead, the backlash led to a synthesis between New Deal liberalism and nationalistic Cold War conservatism. Reagan never repudiated his four votes for Franklin Roosevelt and soon began gathering elements of the traditional New Deal coalition into his fold—neo-conservatives; socially conservative Democrats of the Midwest, urban Catholic Northeast, and the Protestant South; and idealistic Kennedy Democrats who could not stomach the notion that a country that put a man on the moon should turn down the thermostat.

The new anti-malaise coalition, Left and Right, agreed on a nationalism that regarded an America with any kind of limits as a place that could never be America in any meaningful sense. They believed in the divine American mission and the rhetoric behind it: “leader of the free world,” “the last best hope for man on earth,” “the shining city on a hill.” Carter's speech, to them, was heresy. Thus Reagan, with help from other former

— OLD AND RIGHT —

Mr. Roosevelt's appearance had an enormous effect upon the thinking of millions of Americans. Some were prone to accept him as the leader without a peer. Others were prone to oppose him and to recognize in his policies a turning away from the traditional stance of America as it related to citizens vis-à-vis their government.

As Roosevelt began to prepare for war, conservatives branded his actions interventionist, extravagant, outright un-American. They took the traditional stand of Americans, that this nation should mind its own business, stay out of European and Asiatic conflicts, and certainly stay out of war.

Roosevelt instituted Social Security and a host of governmental bureaus bloomed from an executive department of the government. Conservatives opposed, pointing out that this was enlarging the government, reducing the dignity and the importance of individuals, taxing everyone in a manner never before imagined.

By the beginning of the 1940s the lines were drawn. The conservative view favored peace, individualism, lowered taxes, smaller government, independence, and self-reliance, and contained a great love of the Constitution. The "liberals," who rallied to Roosevelt's banner, proclaimed a new "deal" in which government would play an ever-larger role, taxes would rise, governmental services would increase, America would intervene in all international affairs and assume a position of "world leadership."

Into this stand-off was introduced a new note: the threat of communism. The attention of the American conservative shifted. He became primarily concerned with foreign affairs. Russia was the new danger. It was no longer a matter of the rise of government and the displacement of individual rights, the erosion of property rights, the increase of taxes. Instead, the conservative emphasis became anti-communism. With this shift came a metamorphosis to the conservative objective.

Where it had served originally as the champion of peace, it began to urge the line of "stand fast," "no compromise," "war if necessary." And where it had championed the idea of smaller government, it began to clamor for larger bureaus to hunt down Communists. It called for expansion of police powers, sought laws to arrest persons of non-conservative persuasion on the grounds that they were "traitors," and clamored for costly "investigations," all of which took more tax money.

All at once the government became the most important thing in the mind of the conservative. Government must be made strong. It must spend billions in missile and weapon research. It must develop "strong" men.

The theory arose that the way to prevent a war with Russia was to start one. Russia was secretly planning for a military takeover of the world. The best defense was aggression. Where conservatives had joined ranks in opposing the military draft of Roosevelt, they now joined hands in branding anyone who refused to be drafted as a "dupe" or an outright "red."

What we are beginning to see occur within the framework of conservative is a new alliance between former "liberals" and latter-day "conservatives." The "liberal" of the '30s wanted larger government, principally in the area of social legislation, welfare, and human experiment. Latter-day "conservatives" also want larger government. But they now want it in armies, navies, air forces, and rocketry.

Both the former liberal and the latter-day conservative desire larger government. And the result of this combination is a bigger tax program, more spending on education (for defense), establishment of new bureaus (for patriotic reasons), and great emphasis upon national union.

—Robert Lefevre, "Those Who Protest," 1964

liberals, could transform conservatism from a traditional doctrine of prudence, caution, and sustainability—a tough sell politically—into a highly marketable brand of American exceptionalism.

Unfortunately, as Carter feared, the American mission and lifestyle proved unsustainable. In the short run, the Saudis and other OPEC nations and oil producers slaked America's dependence on foreign oil. The Chinese and other emerging industrial nations were willing to provide cheap consumer goods and buy U.S. Treasuries so that American consumers could have plenty of choices at the marketplace. This cut the inflation that bedeviled the Carter administration. In return, the U.S. military provided protection and stability around the globe through deficit financing. The hoped-for reduction of government that was a part of Reagan's rhetoric was junked because it threatened to shatter the "you can have it all" coalition. Instead, government grew, in part through a neat trick called supply-side economics in which the New Deal, the New Frontier, and even the Great Society could be offered at low cost to taxpayers through massive levels of borrowing. Wrapped around all of this was a nationalistic attitude. The launching of a few cruise missiles every now and then disguised the loss of American economic independence.

After what happened to Carter, no American politician today is brave enough to ask for limits. Bush I said that our way of life is non-negotiable. Bush II told Americans to go shopping after 9/11. President Obama says Americans "will not apologize for our way of life." President Carter is remembered as a weak man—yet no politician now (outside of perhaps Ron Paul) has the guts to make a similarly bold speech during our current economic crisis. ■

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Vive la Différence

Some people here in London are not happy that France is rejoining the military command structure of NATO, whose 60th anniversary falls this month. I confess to

having misgivings. How can the most glorious nation in Europe renege on Charles de Gaulle's brave decision in 1966 not to play the Anglo-American war game but instead put France first and expel all foreign troops from French soil?

That is scarcely the majority view, and the Poujadists among us have responded with their customary Franco-phobia. The *Daily Mail*, the newspaper that sets the press agenda here, resorted to satire, with harrowing results.

"Do we actually want the French back?" it asked, then answered with a page of anti-French jokes. The most offensive thing about the jokes was not that they were offensive—after all, most good jokes are—but that they were unfunny. Not even Bill O'Reilly would have laughed.

What is the first thing the French Army teaches at basic training? *How to surrender in at least ten languages*. What is the most useful thing in the French army? *A rear-view mirror, so they can see the war*. What's the shortest book ever written? *French War Heroes*. Why are there so many tree-lined boulevards in France? *Germans like to march in the shade*.

There was a time when the English had a better grasp of history and a better sense of humor. I have by my bed a reproduction, from the Bodleian Library, of a wartime handbook, *Instruction for British Servicemen in France 1944*. It was prepared by the Political Warfare Executive and issued by the Foreign Office in London, and it is generous, learned, paternalistic, occa-

sionally ironic—a product of the British officer class at its finest.

There are several references to the good behavior of the German troops in France. There are also tributes to French courage and a warning to the men not to think themselves superior simply because Britain had not surrendered in 1940:

If the Germans could have crossed our water-obstacle—the Channel—in the same way as they crossed the French water-obstacle—the river Meuse—are we quite sure that Britain would not have suffered the same immediate fate as France?

The handbook also makes much of the decency of the French people and the greatness of the French nation, warning the British Tommies not to behave like jerks:

What interested Frenchmen was, and is, France: they think that France is a very great country, with a great record of civilization—and they have every reason to think so. ... If you should happen to imagine that the first pretty French girl who smiles at you intends to dance the can-can or take you to bed, you will risk stirring up a lot of trouble for yourself—and for our relations with the French. ... The French are more polite than most of us. Remember to call them 'Monsieur, Madame, Mademoiselle', not just 'Oy!'

The liberation of France, while not as collaterally damaging as the liberation

of Iraq, was all the same very tiresome for the French civilians unlucky enough to get in the way: roughly 20,000 died following the Normandy landings.

That's no reason for the French not to be grateful to the Allies. All the same, you can understand why old-fashioned Frenchmen are not happy about Sarko's NATO move. The far-Right nationalist Viscount Philippe Le Jolis de Villiers de Saintignon says that reintegration in NATO will reduce France to nothing more than "a clone of Great Britain."

The wilder British Euroskeptics, meanwhile, see NATO as a European plot, a means of creating a European defense force, and want the UK to leave it—and the EU—and become part of an armed Anglosphere. Whatever you think of that idea—in my view a very bad one—it would certainly be in the interests of everyone if NATO were disbanded and Europe took responsibility for securing her own borders without any help from (and therefore obligation to) Uncle Sam.

NATO was once a defensive alliance against the Soviet Union. Now vastly expanded, it is an offensive alliance against ... well, you don't have to be a paranoid Russian to believe that its intentions toward Mother Russia are not entirely honorable.

Nor ought it to be any comfort to reflect that these days NATO seems to be run by social workers and human-rights lawyers. It was precisely such people who, ten years ago, thought it would be a good idea to side with the drug-runners of the KLA and bomb the "genocidal" Serbs—from a great height.

Now it's Afghanistan and Pakistan. What next? Perhaps, as Alexander Cockburn recently suggested, NATO will be pressed into service against global warming. ■

Suit Shopping

Is libel tourism a threat to free speech—or just to neocons?

By Oliver Marre

ON A RECENT RAINY Friday afternoon, British Member of Parliament the Right Honorable Denis MacShane called my cellphone to offer a word of warning.

“Make sure your article is very carefully checked by lawyers before it is printed,” he said. “Dealing with this subject is to swim in dangerous waters.”

This article, fittingly enough, is about libel. More specifically, it is about the practice of “libel tourism,” a growing phenomenon whereby individuals or groups shop abroad for the country offering the most effective curbs on free speech.

It is a matter of consternation to many here in London that the United Kingdom should prove, time and again, to possess the courts most likely to impose an easy gag or order substantial damages. British libel law “shames Britain and makes a mockery of the idea that Britain is a protector of core democratic freedoms,” says MacShane. The award-winning *Guardian* columnist George Monbiot describes the restrictions on Britain’s press as a “national disgrace.”

It may appear strange that the libel tourist’s favorite destination is the cradle of parliamentary democracy and home of Magna Carta. Yet today, many libel plaintiffs can take their cases to Britain and expect to win, courtesy of the peculiarities of UK law, the availability of a well-established and powerful coterie of skillful media lawyers, and the leanings of a judge named David Eady, who has been branded “The Privacy Judge” on account of his eagerness to support the allegedly libeled.

Unlike America, Britain has no written constitution. There is no equivalent of the

First Amendment, which enshrines every citizen’s right to free speech. In the UK, an angry litigant who can prove that he has been accused of something wrongly and that the accusation has damaged his reputation is on his way to a hefty payout.

He can also look forward in many cases to the destruction of any text—be it printed in a book or newspaper or posted on the Internet—containing the presumed libel. After a claim has been established in court—the hard part for the prosecution—a defendant can, in effect, no longer be assumed innocent. He must prove that he is not guilty, a clear inversion of what most people understand to be justice.

The situation in America is very different. In addition to the constitutional support, freedom of the press is bolstered by the 1964 Supreme Court decision in *The New York Times Company v. Sullivan*. Montgomery, Alabama police commissioner L.B. Sullivan claimed that a report on police actions against civil-rights protestors amounted to libel. The Supreme Court disagreed and ruled in the paper’s favor. The landmark verdict resulted in countrywide adoption of the legal standard known as “actual malice.” That is to say, a plaintiff has to show not only that an article is wrong and damaging to his reputation but also that the journalist knew it to be wrong and chose to write it anyway. To prove this, which is to prove what a journalist thought as he sat at his keyboard, is clearly difficult.

At this point, you might argue that the English deserve their silly laws, that in the U.S. free speech is going on strong, and leave it at that. In the age of global-

ization, however, the legal protections that appear to guarantee the American right to free expression are not as safe as they once were. It is almost impossible these days for a writer to avoid being published abroad.

Whether you are writing a magazine article that will end up on the Internet and be accessible across the world, a newspaper piece that can be syndicated universally, or a book that, even if it is not published outside the U.S., can be bought on a website such as Amazon, your audience is global. And so, as countries grow increasingly interdependent, national legal systems have become increasingly entangled.

As a result, American writers, journalists, and media outlets are finding themselves facing injunctions from British courts for publishing material that was neither written in the UK nor intended for an overseas audience.

“As in the 18th century, the British establishment is seeking to silence Americans who want to reveal the truth about the murkier goings-on in our interdependent world,” thundered Denis MacShane in a parliamentary debate on libel last December. “I speak not, I am glad to say, about the government but about the English legal system. Lawyers and courts are conspiring to shut down the cold light of independent thinking and writing about what some of the richest and most powerful people in the world are up to.”

Probably the most notorious libel tourist is Khalid bin Mahfouz, son of Salem bin Mahfouz, founder of the National Commercial Bank of Saudi Arabia. He is as rich as this makes him

sound and has a website full of intriguing information. We learn, contrary to information put out by the CIA, that he is not Osama bin Laden's brother in law, that he has never been arrested in Saudi Arabia, and that he has never been accused by the United Nations of sponsoring terrorism.

Since 2004, Mahfouz has won damages from Britain's *Mail on Sunday*; from the American publisher Pluto and U.S. author Michael Griffin for their book *Reaping the Whirlwind*; from French authors Jean-Charles Brisard and Guillaume Dasquié, authors of *Forbidden Truth*; from the eminent Cambridge University Press in the UK; and from American author Rachel Ehrenfeld for her book *Funding Evil*. Mahfouz brought all of these cases in Britain. Furthermore, all, except the case against *Forbidden Truth*, were heard by Mr. Justice Eady, as the High Court judge is officially known.

It is Mahfouz's successful suit against Ehrenfeld that has become the greatest *cause célèbre* of anti-libel-tourism campaigners. Her book was never published in Britain, never printed in Britain, and was not on sale in any British bookshop. It was, however, available on Amazon, and some 20 copies were ordered by people with British addresses.

On the strength of this, Mahfouz sued in the UK and won. Mr. Justice Eady ordered remaining copies of the book pulped and awarded both damages and costs against Ehrenfeld—a total in excess of \$200,000. (For obvious reasons, the specifics of the claims made in *Funding Evil* should not be repeated here, but the title together with the allegations refuted on the Saudi banker's website offer a good idea.)

After considerable public outcry, the British government has promised a consultation on its libel laws in the coming months. At the same time, two U.S. senators have come up with a bill of their own—the Protection of Free Speech Act—which would grant U.S. citizens

immunity from having foreign libel rulings enforced in America. These self-appointed guardians of the First Amendment, Joseph Lieberman and Arlen Specter, describe the Mahfouz-Ehrenfeld case as the “impetus” for their plans. They find themselves surrounded by well-wishers across the political spectrum. The *Washington Post* editorialized in favor of the bill, arguing that “the damage inflicted on the First Amendment and academic freedom is serious.”

But have Lieberman and Specter come up with the best way to protect free speech? And beyond Rachel Ehrenfeld, who would benefit?

“Rather than check her facts, defend her statements in open court, or acknowledge her mistakes, Ehrenfeld hides behind a claim to free speech,” wrote Mahfouz's lawyer, Laurence Harris of the firm Kendal Freeman, in a letter printed in November 2007 by British political weekly magazine *The Spectator*. He noted that Ehrenfeld had not contested the libel claims and concluded, “Thank goodness, the legal lights remain on in Britain to expose such harmful journalism.” Another British libel lawyer adds, “You can't simply go around calling any old Arab a terrorist and then getting offended if someone points out it's a bit unfair.”

While free speech needs defending, there is a fear among members of the international legal community that part of the outcry over libel tourism in the U.S. is being stoked by neocons all too aware that people with Middle Eastern connections can prove that the terrorist threat is neither as widespread nor as well funded as it is often presented.

From a practical perspective, the primary problem with Specter and Lieberman's anti-libel-tourism bill is that, according to lawyers, it will not make much difference. The enforcement of these libel rulings, which is what the bill seeks to prevent, does not happen very

often. Nigel Tait, a partner at Carter-Ruck, one of London's fiercest and best known firms of libel lawyers, tells me that he “doesn't know” why the senators are bothering.

“The U.S. doesn't enforce libel judgments very often anyway and never has,” says Tait. “Twenty years ago, I won a case for libel against a Russian, so he moved to America so nobody would bother enforcing the judgment.” This view appears to be supported by Laurence Harris, who points out that nobody has made any effort to claim the costs and damages from Ehrenfeld.

The same goes for the destruction of her books: copies of *Funding Evil* have not been burnt because—draconian as the libel laws may be—the British police stop short of knocking on the doors of anyone who has bought a copy and starting a bonfire in his backyard. The final irony is that Lieberman and Specter's bill would not really help Ehrenfeld's reputation, either. To the extent that a British ruling is taken seriously by anyone at the moment, it would continue to stand only for those, like Mahfouz, who wished to cite it.

My own newspaper, *The Observer*, has recently encountered another flexing of libel muscle with a U.S. connection. It concerns a series of articles about Nadhmi Auchi printed in 2003. Auchi is Iraqi but resident in the UK, so to that extent his use of British courts does not strictly qualify as libel tourism.

It does, however, provide an insight into the power that the system gives a wealthy international complainant who has cropped up on the *Forbes* list of the richest men in the world and who uses British libel laws for global effect.

Auchi has apparently had some sort of relationship with Tony Rezko, the convicted fraudster who has given money to President Obama. The *Observer's* articles made a series of allegations about Auchi's Iraqi and French

business practices, which became newsworthy last year when the Obama connection came to light. Auchi has a conviction in France for fraud, which he is appealing. In light of threats from Auchi's solicitors, based on the fact simply that he is appealing the conviction, all of these articles have had to be removed from our website.

They vanished, so nobody in the U.S. was able to read them, test their allegations, or have the details at their fingertips to help further reporting at a crucial time in American politics. English Liberal Democrat politician Norman Lamb says the question is not whether Auchi is innocent or guilty, but "it is legitimate to investigate such a matter, given that Mr. Auchi is a prominent British citizen with political connections in this country and overseas. It is alleged that Mr. Auchi and his lawyers, Carter-Ruck, have been making strenuous efforts to close down public debate. Of course, it is absolutely legitimate for any citizen to demand accurate and rigorous investigation and reporting. The question is whether UK libel laws have the disproportionate effect of discouraging legitimate reporting. Many believe that they do."

Free speech must not be put to flight by the approach of a bewigged British judge. Guarding and upholding the values of the U.S. Constitution is not just a worthy endeavor, but an essential safeguard to the American way of life, and something the rest of the world—most of all the UK government as they consider British libel laws—should learn from. The Lieberman and Specter bill, however, does not appear to be the way to do it. It would be a pity if a piece of legislation was pushed through the Senate that achieved little more than making it more comfortable to shout "terrorist" whenever a neocon sets eyes on an Arab. ■

Oliver Marre writes for The Observer in London.

National Disservice

President Obama's feel-good draft

By James Bovard

ON MARCH 18, the House of Representatives voted 321-105 to pass the Generations Invigorating Volunteerism and Education Act, and the Senate is expected quickly to follow suit. The GIVE Act more than triples the number of slots for AmeriCorps members from 75,000 to 250,000. And it takes a giant step toward expanding Washington's power to make "service" compulsory for all young Americans.

President Obama praises AmeriCorps for embodying "the best of our nation's history, diversity and commitment to service." In reality, AmeriCorps's essence is paying people on false pretenses to do unnecessary things.

Since President Clinton created the program in 1993, politicians of both parties have endlessly touted its recruits as volunteers toiling selflessly for the common good. But the average AmeriCorps member receives more than \$15,000 a year in pay and other benefits, and almost 90 percent go on to work for government agencies or nonprofit groups. Rather than financial martyrdom, signing up for AmeriCorps is, for many, akin to a paid internship.

Even though AmeriCorps is popular with the Washington establishment, it has always been a laughingstock. During the Clinton administration, AmeriCorps members helped run a program in Buffalo that gave children \$5 for each toy gun they brought in, as well as

a certificate praising their decision not to play with these trinkets. In San Diego, AmeriCorps members busied themselves collecting used bras and panties for a homeless shelter. In Los Angeles, they foisted unreliable ultra-low-flush toilets on poor people.

Indeed, AmeriCorps's projects produce little more than sanctimony and headlines for news-starved local newspapers. Among the program's recent coups:

- In San Francisco, AmeriCorps members busy themselves mediating elementary school playground disputes.
- In Florida, AmeriCorps recruits in the Women in Distress program organized a poetry reading on the evils of domestic violence.
- In Oswego, New York, they set up a donation bin to gather used cell-phones for victims of domestic violence.
- In Montana, members encouraged people to donate books to ship to Cameroon.
- In Lafayette, Louisiana, with help from the local Junior League, AmeriCorps led an effort to recycle prom dresses for high-school students.

And 11 AmeriCorps members spent several weeks at a Biloxi, Mississippi elementary school last fall helping the

school “go green.” Students gathered more than 3,000 pounds of recyclable material. Much was paper, which is currently fetching barely \$100 a ton, but the project presumably made all participants glow with virtue.

Puppet shows are a favorite activity for AmeriCorps members around the country. In Springfield, Illinois, they donned puppets to school 3-year-olds at the Little Angels Child Care Center about the benefits of smoke detectors.

Reading-related and other education activities are often presented as a prime justification for tripling the program’s size. President Clinton set the standard when he declared in a 1997 radio address touting AmeriCorps’s literacy efforts: “All you really need to do is to roll up your sleeves, sit with a child and open a book together.” When it comes to the hard work of actually teaching kids how to read, opening books is apparently “close enough for government work.” But in truth, AmeriCorps has shown little if any competence at teaching literacy. It makes do with a “fun with books” motif that provides as much benefit as watching a few episodes of “Sesame Street.”

Newsweek editor Jonathan Alter, one of the program’s biggest proponents, praises AmeriCorps for its “15 years of scandal-free” history. Not exactly.

The program was tainted from the get-go. In its early years, members were routinely used as backdrops for photo opportunities when President Clinton arrived on tarmacs around the nation. And AmeriCorps “volunteers” were repeatedly involved in political advocacy and petitioning. The program gave over \$1 million to ACORN.

The Mississippi Action for Community Education AmeriCorps program was purportedly recruiting food-stamp recipients. In reality, it was stacking the payroll with ghost employees.

MACE’s director was convicted on 15 felony counts and sent to prison in 2002. And last year, Sacramento’s St. HOPE Academy, a showcase AmeriCorps program, was disbarred after an inspector-general investigation found that AmeriCorps members were detailed to serve as personal assistants to the academy’s founder, to perform menial work for the academy, and “to engage in political campaigning to the benefit of St. HOPE’s charter school.”

But AmeriCorps remains popular on Capitol Hill, at least in part because it allows members of Congress to flaunt their goodness. The program’s headquarters encourages local branches to organize “AmeriCorps-for-a-Day events with elected officials” to help get them on board. After some pols showed up one day five years ago to hammer a few nails at a D.C. house-building project, AmeriCorps issued a press release naming and praising the eight members of Congress. Photos from appearances at AmeriCorps Habitat for Humanity projects can embellish con-

of American troops at that moment fighting the Taliban in Afghanistan. By 2003, Lenkowsky changed his tune, describing AmeriCorps as just “another cumbersome, unpredictable government bureaucracy.”

AmeriCorps claims that its members “mobilize” 1.7 million other Americans to volunteer each year. At best, this is the Tom Sawyer model of virtue—some people getting paid to sway other people to work for free. AmeriCorps’s actual achievements are a statistical charade. The organization routinely counts anyone who works in a project that AmeriCorps members “manage” as a new volunteer. Thus, if 20 people are already working at a house-building project where an AmeriCorps member temporarily supervises, they are all counted as AmeriCorps-generated volunteers.

AmeriCorps trumpets the assertion that, since its creation, “540,000 AmeriCorps members have contributed more than 705 million hours of service.” Shirley Sagawa, a Clinton White

SHORTLY AFTER 9/11, AMERICORPS CHIEF LESLIE LENKOWSKY TOLD MEMBERS, “THE DAILY DUTIES THAT YOU PERFORM WILL ALSO BE HELPING TO THWART TERRORISM ITSELF.”

stituent newsletters and aid in re-election campaigns.

Politicians exploit AmeriCorps in other ways. Early in his first term, President George W. Bush hyped the expansion of AmeriCorps as a counterpunch against Osama bin Laden. Shortly after 9/11, AmeriCorps chief Leslie Lenkowsky told members, “the daily duties that you perform will also be helping to thwart terrorism itself.” He assured AmeriCorps recruits that their efforts were “as important to our nation’s security and well-being” as the actions

House official, observed that presidents have always “set the measure of AmeriCorps [as] the number of bodies in it.” But AmeriCorps has never performed a credible analysis of the value of the service its members produce. Instead, it relies on Soviet bloc-style accounting—merely counting labor inputs and pretending the raw numbers prove grandiose achievements.

In 2003, the Office of Management and Budget concluded that “AmeriCorps has not been able to demonstrate results. Its current focus is on

the amount of time a person serves, as opposed to the impact on the community or participants.” The General Accounting Office criticized the organization for failing to make any effort to measure the actual effect of its members’ actions.

But Congress continues to fill AmeriCorps ranks because it puts a smiley face on big government. Whether or not they produce anything, as long as AmeriCorps’s gray shirts are out there getting PR for helping people, Leviathan can be portrayed as a giant engine of compassion. “National service” is really just any subsidized activity that burnishes the image of the federal government.

If AmeriCorps were simply a garden-variety boondoggle, the fairy tales about its achievements would be relatively benign (except to taxpayers). But some politicians hope to exploit AmeriCorps’s cachet to gin up support for imposing compulsory labor requirements on all young Americans.

The GIVE act calls for the appointment of a Congressional Commission on Civic Service, raising the obvious question of whether congressmen deserve vastly more power over other Americans. But in Washington logic, since volunteering is a good thing, everybody should be forced to do it.

The commission will examine “the effect on the nation ... if all individuals in the United States ... were required to perform a certain amount of national service” and “whether a workable, fair,

and reasonable mandatory service requirement for all able young people could be developed.” It will also consider whether tacitly repealing the 13th Amendment prohibition on involuntary servitude “would strengthen the social fabric of the Nation and overcome civic challenges by bringing together people from diverse economic, ethnic, and educational backgrounds.”

Would political subjugation produce moral uplift? The Beltway answer: of course—because politicians are the nation’s leaders, the de facto “best and brightest.” While they are destroying the nation’s financial future with one trillion-dollar bailout after another, they have the gall to lecture young people about their obligations to the government.

AS LONG AS AMERICORPS’S GRAY SHIRTS ARE OUT THERE GETTING PR FOR HELPING PEOPLE, LEVIATHAN CAN BE PORTRAYED AS A GIANT ENGINE OF COMPASSION.

The GIVE Act views military-style regimentation as a model for the nation. Its National Civil Community Corps would seek to “combine the best practices of civilian service with the best aspects of military service.” This reminds some critics of Obama’s declaration last July: “We’ve got to have a civilian national security force that is just as powerful, just as strong, just as well funded as the military.”

This is in character with Obama’s liberalism. Shortly after his election victory last November, the change.gov website announced the new president’s call for “developing a plan to require 50 hours of community service in middle school and high school and 100 hours of community service in college every year.” The wording was later changed to “setting a goal” for service. (Some states have already imposed such requirements on students as a condition for graduation.)

This is part of a long series of Democratic Party efforts to create pretexts to commandeer more of people’s lives. A dozen years ago, in a stunning conflation of compassion and compulsion, President Clinton announced that America needs “citizen servants.” He declared, “The will to serve has never

been stronger.” That may or may not have been true, but the will to power is certainly at a high-water mark.

A *New York Times* editorial on March 24 hailed the GIVE Act for providing “a chance to constructively harness the idealism of thousands of Americans eager to contribute time and energy to solving the nation’s problems.” But the GIVE Act is idealistic only if one believes that citizens should take their values—and their “moral opportunities”—from their rulers.

It is a sad day when people line up to have their virtue certified by the most exploitative, dishonest class in the nation. ■

James Bovard is the author of Attention Deficit Democracy and eight other books.

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Steve Sailer, isteve.blogspot.com

The Wealth Delusion

How Americans forgot the meaning of investment

By Tom Streithorst

IN THE PAST YEAR, over \$20 trillion in wealth has disappeared. Wages are stagnant, unemployment rising, consumer confidence gone. We have awoken from a dream to find the prosperity we imagined was our birthright merely an illusion. Our borrowing, public and private, was the world's engine of growth for the last quarter century, and now we see the fate of the things we borrowed to buy: rapidly depreciating stock certificates, houses worth less than their mortgages. When we looked at our brokerage account statements and thought ourselves rich, we were confused about the meaning of the word "investment."

When you buy a stock or a bond, you are usually purchasing the right to income in the future, either a share of profits or interest payments. All finance is a trade between present and future: money now or the right to money later. Since the Industrial Revolution, we have generally been correct in assuming that the future will be more prosperous than the present. Improvements in technology and increases in capital expenditures have made workers more productive. That is our true wealth: if you can produce more with less work, you will be richer. But buying houses does not make us more productive.

In the past four years, America's 500 largest corporations made a profit of \$2.4 trillion, more than 4 percent of GDP. Did they use it to increase productive capacity, improve quality, or strengthen their balance sheets? No, \$1.7 trillion went for stock buybacks and \$900 billion for dividends. Of the

\$2.4 trillion they made, they passed on \$2.6 trillion to their shareholders. They gave away more than they made and invested nothing.

Investment, as defined by Adam Smith, Max Weber, and most economics textbooks, is the use of deferred consumption for the purchase of capital goods, which create a cash flow in the future. For the past generation, however, when most of us used the word "investment," it meant that a greater fool could be found to buy our house or share of a derivatives contract for more than we paid.

When the bore at a cocktail party says, "My house is the best investment I ever made," he means he paid less than it is now worth. But his house does not create a cash flow. It is merely a consumption item whose value has gone up. We have a semantic problem: the word "investment" has come to mean two different things, and this confusion played a part in creating the bubble whose explosion will end up costing many of us our jobs.

Look at the archetypal "investment" of the past 30 years: the leveraged buyout. Private equity firms find a company with a steady cash flow, put up a little money, borrow lots more, and then use that company's own cash flow to fund its takeover. They load a healthy firm with tons of debt, using existing cash flow to pay the interest. Retained profits, which the firm could have used for R&D, building new plants, hiring new workers, or productive investment, are sacrificed to service new, unproductive debt.

These leveraged buyout artists call themselves investors, but what they do is the opposite of investment. They are asset strippers. Traditional investors take savings created by deferred consumption and use it to create productive capacity for the future. Private equity firms take existing productive capacity, monetize it, and use it to fund their luxurious current consumption. Investment is supposed to mean sacrificing now to make the future richer. These pirates sacrifice the future to consume more today.

It didn't used to be this way. In the 17th century, suppose an Amsterdam burgher restrained his desire for luxury, didn't commission a Rembrandt portrait of his wife, and instead bought shares in the Dutch East Asia Company. The company used his money to outfit a ship bound for the Spice Islands. With a little luck, it returned two years later, sold its pepper for a profit and paid our burgher a dividend. His earlier restraint increased world trade, seasoned food all over Europe, and made him money. That is what we have always called an investment.

Or suppose a London rentier in 1880 bought bonds for a proposed railroad from Buenos Aires deep into the grasslands of Argentina. His money allowed the railroad to buy land, import workers, lay track. Worthless land became valuable. Cattle grazing there, previously slaughtered for their hides and left to rot, became a valuable export crop. The landlords cheerfully paid the railroad freight rates, the railroad paid the rentier his interest, and for the first time

meat regularly appeared on the dinner tables of Europe's urban poor.

Of course, real investment still occurs today. An immigrant saves some money, borrows more, and opens a curry shop. A software engineer with a brilliant idea finds a venture capitalist to back him and invents Google. But these investors, who create jobs and increase productivity, are generally not funded by investment banks or financial markets. They borrow

the great borrowers who made fortunes. With CEO bonuses linked to short-term stock price increases, corporations spent retained profits to buy back shares, using their money to drive up stock prices instead of investing in things that would strengthen the firm in the long run.

Barry Eichengreen, perhaps the leading economic historian of the Golden Age, tells us that much of the growth in Europe after World War II was due to a

interest and principal payments—is covered by cash flow. Minsky defines a “speculative” financial structure as one in which, in certain periods, cash flow will not be sufficient to fund interest payments but the value of the investment remains greater than the interest and principal payments due. The third and most fragile structure he calls “Ponzi.” Not only are interest payments less than cash flow, but the present value of the discounted cash flows generated by the investment are less than the money owed to fund it.

A Ponzi structure can only be maintained, Minsky said, by further borrowing, and this borrowing is only possible if interest payments do not rise while asset prices do. We have been deep into Ponzi finance for some time. Central bankers, recognizing the fragility of our financial architecture, have kept interest rates low. But the stability of the system required asset prices to keep going up so that the value of collateral grew, keeping banks confident enough to allow further borrowing. If asset prices stagnate, causing banks to reject the further loans necessary just to pay existing interest, the structure falls apart. That is why a relatively minor decline in American home prices brought the entire financial system to its knees.

The current crisis gives us an opportunity to rethink the link between the financial and real economies. For too long, those working in the productive economy of goods and services have subsidized bankers and traders who have done little to make the rest of us richer or more productive. Since we are bailing out their stupid bets, let us insist that from now on their investments serve our common future. We can no longer afford paper “investments” that merely represent a hope that since asset prices have gone up in the past, they will continue to do so forever. ■

Tom Streithorst writes from London.

WITH ASSET PRICES RISING FOR OVER A GENERATION, INVESTMENT LOST ITS CALVINIST ROOTS. AN INVESTMENT NO LONGER DEMANDED SACRIFICE OF CURRENT PLEASURE.

from commercial banks or perhaps sell equity to venture capital firms. The huge profits once made at Goldman Sachs, Lehman Brothers, and Bear Stearns had little to do with funding productive investment. Casino-style trading, mergers-and-acquisition work, highly leveraged arbitrage—shorting the 30-year bond while going long on the 29-year—made big bucks for financiers. But it did nothing for the economy as a whole.

Central banks battled any threat to the financial economy by increasing liquidity. This huge pool of new money sloshing around, chasing things to buy, created spectacular asset-price inflation. Three decades ago, houses on my London block cost £3,000. Last year, they went for £1 million. Back then, share prices traded at six to eight times earnings. Today, despite the huge fall in stock prices, P/E ratios are still considerably higher than they were in the early '80s. Why save when the value of your house goes up more than your annual salary? Why invest in new plants when firing workers makes your stock price—and thus your bonus—go up?

With asset prices rising for over a generation, investment lost its Calvinist roots. An investment no longer demanded sacrifice of current pleasure. Indeed it was

social pact. Labor agreed to restrain its wage demands, and in return, capital agreed to reinvest most profits into the business. As productive investment rose, so did worker productivity, and between 1950 and 1970 real wages more than doubled. Investment in productive capacity works: it makes the entire society richer—entrepreneurs, bankers, and workers alike.

That compact has broken down. As finance has grown to dominate the rest of the economy, with interest payments as a share of GDP rising from under 1 percent to over 16 percent, real productive investment has declined. If you build a factory or invent a new product using borrowed money, you create a cash flow that allows interest payments to be paid no matter what happens in the financial markets. But when “investment” creates no new productive capacity, when the link between financial investment and the real productive economy is broken, finance becomes a faith-based enterprise in perpetual asset-price increases. When that faith begins to crumble, the debt structure has no foundation to hold it up.

Hyman Minsky, the Cassandra of this financial crisis, described three types of financial structure. The first, and safest, he called “hedged.” All borrowing—

Sticker Shock and Awe

Our defenses should get smaller and smarter, not more expensive.

By Jeff Huber

PENTAGON OFFICIALS SAY that Secretary of Defense Robert Gates will soon announce up to a half-dozen weapons-system cancellations. If that's true—and I'm not convinced it is—Gates will probably meet more resistance than the Allies ran into at Normandy.

The time-honored adage says that generals always plan for the last war. American generals, taking things a step further, always plan for the last World War. As strategy analyst William Lind notes of our weapons-acquisition practices, “most of what we are buying is a military museum.” For all the Pentagon's lip service to “transformation” and “revolution in military affairs,” today's force looks like a Buck Rogers version of the force we defeated the Axis Powers with: aircraft carriers, destroyers, submarines, armor, infantry, bombers, fighters, special forces, and so on.

Our “Good War” military was suited to symmetrical enemies whose political behavior could be compelled by defeat of their armed forces. We haven't had a foe like that since the Berlin Wall came down; arguably, the Soviets ceased to be a serious military threat years if not decades before then. Yet the preponderance of our defense budget is spent on gee-wizardry to deter or fight a peer competitor that will never emerge.

At the low-tech end of the spectrum, the Obama administration intends to continue increasing the size of our ground forces to conduct the “long war” against “radical extremists,” despite analysis by Rand Corporation that con-

cludes the best way to proceed in our misnamed war on terror is “with a light U.S. military footprint or none at all.”

Neoconservatives weep that their paisley sky will fall if America's defense budget drops below 4 percent of GDP. If that metric were a true indicator of military might, America would be at the mercy of juggernauts like Burundi (5.9 percent), Eritrea (6.3 percent), and Qatar (10 percent). As for percentages that mean something: America accounts for more than half of the world's defense expenditures. Iran's defense budget is less than one percent of ours. The defense budgets of Russia and China are no more than a tenth of ours. The U.S. and its Western allies supply more than 95 percent of global arms sales; anybody who wants a military that can compete with ours will have to buy it from us.

If Gates is serious about eliminating the fat from the defense budget, he can start by amputating the Pentagon's wild blue extravagance.

Air-power fanatics still argue that the atom bomb was the decisive factor in ending the war with Imperial Japan, but the judgment of history is that strategic bombing is a proven dud. The \$2 billion B-2 stealth bomber is albatross enough, but the Air Force wants to replace it by 2018 with an even costlier manned bomber that will have the same combat radius but carry fewer bombs. By 2035, the Air Force plans to field a “transformational advanced technology capability” for long-range strike using an “advanced system-of-systems approach.” “System of systems” is network-centric

warfare-ese for a weapons program that will transform into a system of economic systems. We already bomb Pakistani weddings and Somali villages with robot airplanes controlled from Nevada and cruise missiles launched from nuclear submarines. Our “global reach” is systematic enough.

At \$338 million per copy, the F-22 Raptor is the most expensive fighter jet ever made, but the F-35 Joint Strike Fighter program cost is on schedule to surpass the Raptor project's total tab. The planned production run of 183 Raptor airframes will cost \$62 billion. The Joint Strike Fighter comes cheaper by the pop, but the planned 2,458 aircraft buy will cost upwards of \$1 trillion in acquisition and maintenance costs. Moreover, the Government Accountability Office says the JSF estimate is “not reliable for decision making” because “certain key costs were excluded.” How convenient.

Stealth technology drives the sticker price of these fighters into the stratosphere, but avionics, not radar-evading airframes, is what gives them superiority in air-to-air combat. The F-22's missile, radar, identification, and communications gear can be retrofitted into the F-16 Viper, which is still in production and comes in at under \$20 million a copy. The multi-role Viper is a far better tactical bomber than the F-22, and when the fog of air-war forces a visual dogfight, the Air Force asserts that the “F-16's maneuverability and combat radius exceed that of all potential threat fighter aircraft.”

The F-22 isn't the only waste of our air superiority dollar. Despite what Secretary Gates says, the Navy's shooting down of a crippled spy satellite with an SM-3 surface-to-air missile in February 2008 did not prove we are able to knock down ballistic missiles. According to physicist Richard L. Garwin, intercepting a low-orbit satellite is like "shooting ducks in a pond." Bagging a ballistic missile is a different matter. Garwin, whose defense-technology credentials include former membership on the President's Science Advisory Committee and the Defense Science Board, says, "Protecting the United States against attack by nuclear weapons or biological weapons is a failure and will remain so for the foreseeable future, so long as [we attempt] to carry it out by mid-course intercept." Intercepting an object on a

ized version of the *Nimitz* that will serve our security requirements every bit as well as a shiny new Ford can.

All ten *Nimitz* class carriers—including the just christened *George H.W. Bush*—were built to the same drawings used in construction of the *Nimitz* itself, which began in 1968. Once built, the subsequent *Nimitz* carriers underwent costly overhauls to replace their old guts with the newest gadgetry.

We might need fixed-wing carriers for the time being to fight or deter a Chinese invasion of Taiwan, but we don't need all 11 we have now. At most, four carrier groups should be assigned to this mission; a fifth would unquestionably get in the way. Since carriers spend roughly half their lives in a shipyard and maintenance cycle, eight total are sufficient, and we can get by with seven.

SINCE CARRIERS SPEND ROUGHLY HALF THEIR LIVES IN A SHIPYARD AND MAINTENANCE CYCLE, EIGHT TOTAL ARE SUFFICIENT, AND WE CAN GET BY WITH SEVEN.

ballistic arc is more challenging than hitting one on an orbital trajectory, but the main problem is that our interceptor missiles can't defeat the decoy countermeasures any ballistic missile employed against us is likely to have, and Garwin says they will never be able to.

Though the Navy has decided only to build three \$3.3 billion *Zumwalt* class destroyers, it's still full speed ahead for the new *Gerald R. Ford* class of nuclear aircraft carriers. The per-copy-cost guess is \$8.1 billion, twice the price of the currently active *Nimitz* class carriers. The Navy justifies the additional cost with the promise of savings in future operating expenses—savings that, when the future arrives, will have vanished like a blind dowager's silverware. Assuming we ever need to build another aircraft carrier—a generous assumption—we can build a modern-

The "Triple H" air wing—Hornets, Hawkeyes, and Helicopters—will be sufficiently capable as long as we have carriers. The F/A-18 Super Hornet can haul all the paraphernalia the Air Force's F-16 can carry, and the two-seat Hornet F will eventually assume the EA-6 Prowler's electronic-attack function. The twin turboprop airframe of the E-2 Hawkeye, the Navy's mini-AWACS, has accommodated radar- and communication-system upgrades for decades, and can for decades more. The SH-60 Sea Hawk helicopter marks the end of the useful evolution of rotary-wing carrier aircraft; the hapless tilt-rotor V-22 Osprey project confirmed the old Soviet maxim that "better is the enemy of good enough."

What our seven or eight carriers don't need on their flight decks is the Unmanned Combat Aircraft System. Christian Lowe of Military.com thinks the

Navy UCAS could "save the carrier fleet." He whimsies, "Imagine a Navy strike plane launching off the catapult as its carrier begins steaming out of its San Diego naval base. The jet refuels over Hawaii, then again over Guam; it gets updated targeting data from its mother ship 6,000 miles away and launches its strike on an enemy nuclear missile silo in East Asia—all in one sortie. Sound impossible?"

It's entirely possible, but it's utterly dim. Such a strike plane, manned or unmanned, doesn't need to launch from a carrier as it leaves its San Diego naval base. It can take off from the San Diego naval base and land there, too. A land-based UCAS could fill an existing requirement: since we already have global-reach bombing, we may as well hang on to it. It might prove useful someday. UCAS or something like it can fill the Air Force's next generation long-range strike needs. The pilots who run the Air Force have consistently stiff-armed unmanned vehicles like cruise missiles and drones that compete with their bomber and fighter programs. It's partly understandable that they don't like the idea of geeks sitting at computer terminals in Bumsteer, Iowa putting them out of a job, but tough. Greyhound is hiring.

What the carriers desperately need, along with the rest of the Navy's ships, is a reliable means of defending themselves from short-range weapons. Only now, more than eight years after the *Cole* bombing, has the Navy awarded a \$23 million contract (to General Dynamics) to run an integrated ship-defense development program. More critical than the rubber-dinghy threat, though, is the SSN-22 Sunburn anti-ship missile with its supersonic cruise speed and 15g terminal maneuver. Iran has it, and our carriers and other ships in the Persian Gulf carry nothing that has a prayer of knocking it down.

Though we're neglecting force protection of our frontline maritime assets,

the Defense Advanced Research Projects Agency is “soliciting innovative research proposals on the topic of a submersible aircraft.” The war industry has been trying to produce a viable flying submarine since World War II. The closest they’ve come to an operational specimen appeared in a 1960s TV series “Voyage to the Bottom of the Sea,” where its most useful function was to fly Admiral Nelson from the *Seaview* to his favorite girly bar in Bangkok.

Land forces don’t run up as large a bill as the sea and sky services, mostly because they are more manpower-intensive and less gizmo-oriented. They aren’t cheap, though. A recent report from the Army says that plans to increase its size will cost \$40 billion a year. A proportional cost of the plan to beef up the Marine Corps comes to \$16.5 billion annually. That’s over \$55 billion a year for the sake of having enough young bodies to continue the Iraq and Afghanistan fiascos indefinitely or engage in new fiascos just like them.

“Transformation” in the American way of war has come to embrace high-cost gadgetry and jabber-laden doctrine devoid of common sense. The latest slogan from the five-sided meme factory is “persistent conflict.” That’s like the “long war” only more persistent and conflicted—we continue in our war on terror even though all it accomplishes is the creation of more terrorists.

Strategists from Sun Tzu to the Red Baron tell us not to engage in battles we don’t know we can win, yet we aggressively seek battles that we know are unwinnable. The only meaningful way we can transform our military is to stop starting those wars. ■

Commander Jeff Huber, U.S. Navy (retired), writes at Pen and Sword. His novel Bathtub Admirals (Kunati Books) is a lampoon on America’s rise to global dominance.

The Obama administration is using former officials as unofficial diplomats because it does not trust many of the State Department officers and ambassadors held over from the Bush years. The process of replacing the Bushies has been handicapped by a number of vetting blunders, meaning that senior positions have been filled without replacing the supporting officers who would normally develop and implement policies. One official called it a “bureaucracy gap” at the upper levels. This has resulted in the ad hoc solution of sending special emissaries on secret or not-so-secret missions, but critics are concerned that the practice sends out too many signals and blurs the lines of communication and accountability. Some of the emissaries report to the White House directly, circumventing the State Department, though Hillary Clinton reportedly approves of the arrangement, possibly because many of the ex-officials involved worked for her husband.

Two of the United States’ principal adversaries, Venezuela and Iran, are receiving particular attention. In February, former secretary of defense William Perry traveled to the Middle East as a private citizen but bearing several messages from the White House. Perry reportedly met Iranian officials in Dubai, which is where Iranians go to circumvent sanctions, drink, and carouse. He suggested that the Obama administration would be prepared to negotiate all outstanding issues but only after Iran’s June presidential elections. The implication was that the White House would like to see President Mahmoud Ahmadinejad replaced by someone less radioactive. Perry also proposed that the U.S. and Iran might have a common interest in working against the Taliban in Afghanistan. The proposal might seem somewhat bizarre, particularly as the Pentagon has been insisting that Iran is aiding the Afghan insurgency. But the reality is that Iran despises the Taliban, which has declared Shi’ite Muslims to be heretics and in 1997 killed 11 Iranian diplomats in Mazar-e-Sharif. Tehran would not like to see them return to power. The response to Perry was warm enough to encourage Obama to speak directly to the Iranian people by video on March 20.

The president has also been feeling out Venezuela, but with little success. A senior State Department official who traveled to Venezuela in early February on a confidential mission was told by an aide to President Hugo Chavez that the “Bolivarian revolution” is on course and that the country’s economy will be irreversibly changed. Shortly thereafter, an American businessman with ties to the Venezuelan government visited the country on behalf of the White House. Chavez refused to meet him, sending one of his deputies instead. The underling railed against the United States, claiming that nothing had changed in Washington and that the CIA is still trying to overthrow Chavez. Venezuela is under intense pressure economically due to the collapse in oil prices. Chavez has reacted by confiscating property of multinational companies, particularly in the agricultural sector, blaming them for the inflation and shortages caused by his price controls. Shortly after the departure of the U.S. emissaries, he confiscated a rice-milling plant belonging to Minnesota’s Cargill and took over the land of a Coca-Cola distributorship.

Philip Giraldi, a former CIA Officer, is a fellow with the American Conservative Defense Alliance.

Arts & Letters

FILM

[Adventureland]

What I Did on My Summer Vacation

By Steve Sailer

MID-20TH-CENTURY American writers competed on their dust flaps to list the most jobs held. The more proletarian occupations an author enumerated, such as short-order cook, hod carrier, or lobsterman, the more legitimate was his assault on the Great American Novel.

Today, however, a generation of the well-educated has grown up assuming there are jobs Americans just won't do. "Adventureland," a witty, nostalgic love story is set in the summer of 1987, about the time when tuition started being inflated so high by competitive elitism and unskilled wages pounded so low by illegal immigration that "summer job" was increasingly replaced in the upper-middle-class vocabulary by "unpaid internship." (By now, a few parents are paying fashionable employers to let their kids make photocopies and fetch coffee.)

A new Oberlin graduate, James Brennan, has his costly Eurail Pass backpack tour canceled by his parents because his alcoholic father's executive career is wobbling. Suddenly needing a summer job to pay for tuition in the fall at the Columbia Journalism School, he finds that a résumé featuring his SAT scores and his Renaissance Studies major

doesn't compensate for his lack of any work experience. Nobody in Greater Pittsburgh, it turns out, needs a fresco restored. He winds up at the employer of last resort, the Adventureland amusement park.

Writer-director Greg Mottola, who helmed 2007's comedy hit "Superbad," explains the origin of his quasi-autobiographical film with an ingenuous snob-bishness that would have annoyed and amused John Steinbeck. "I was talking with a bunch of writer friends, and I was telling them these embarrassing stories about a summer in the '80s that I spent as a carnie working at an amusement park. ... It was the worst job I've ever had. ... I should have had a good job—I should have been a tutor or gone to Manhattan and been an intern at a magazine or something respectable—but no, I was working for minimum wage, handing out stuffed animals to drunk people."

Please note that Mottola isn't, personally, a jerk. Judging from "Adventureland," he's an insightful yet gentle observer. That's just the way people think nowadays.

For Mottola's alter ego, this dreaded "worst job in the world" laboring in a workplace where many employees lack four-digit SAT scores turns out to be the best summer of James's life. Played by Jesse Eisenberg, continuing his role in 2005's "The Squid and the Whale" as a romantic but overly verbal intellectual who can't help blurting out his innermost feelings at awkward moments, James is the first young male in recent movies who isn't in a particular rush to lose his virginity. He seems to share Freud's pride in the discreet passion of the bourgeoisie: "Why don't we fall in love with someone new every month? Because every breakup tears away a piece of our heart."

James's goofy charm catches the eye of two beauties working at the park. Em (Kristen Stewart of "Twilight") is a Jewish NYU student who, by sleeping with the amusement park's handsome but married electrician (Ryan Reynolds), is avenging herself on her lawyer father for remarrying after her mother's death. And Lisa P. (Margarita Levieva) is a Catholic working-class girl whose religion-dictated virginity enables her to date her many admirers without losing her heart to any.

Mottola, now 44, directed episodes of comedy godfather Judd Apatow's failed 2001 TV series "Undeclared." Until Apatow's 2005 breakthrough with "The 40 Year Old Virgin," Mottola's career was idling. (His press-kit biography concludes, "He hopes someday to have a better bio.") Like so many other underlings of Apatow, such as Seth Rogen and Jason Segel, he's done well when finally given a chance. The sudden success of Apatow's boys is reminiscent of the famous cohort of writers who graduated from Eton in 1920-22: George Orwell, Anthony Powell, Henry Green, Cyril Connolly, Harold Acton, and Ian Fleming. Were they that individually talented? Or did it help to know each other?

Without Apatow's oversight this time, Mottola's "Adventureland" is notably less vulgar than "Superbad," which Rogen and Evan Goldberg wrote. Mottola's new movie takes very seriously the dictum that love stories are most romantic before consummation. Granted, it's also less funny than "Superbad," but better overall. One caveat: like most indie films today, it's directed by a writer, so it's not the visual experience it could have been if it had been entrusted to a 1980s-style music-video idiot savant. ■

Rated R for language, nonstop marijuana use, and sexual references.

BOOKS

[*Fighting Identity: Sacred War and World Change*, Michael Vlahos, Praeger Security International, 260 pages]

The Rites of War

By Michael Lind

IN A BRILLIANT SCENE early in *Fighting Identity: Sacred War and World Change*, Michael Vlahos describes how he walked the battlefield of Fredericksburg on the eve of the 145th anniversary of the Civil War battle: “This Victorian Falujah took 9,000 Union shells. It was America’s first real street fighting, its first urban combat, and it was not pretty. Lee remarked that the Vandals could not have looted a town better.” To show that the mentality of the religious martyr is far from alien in America, he quotes a wounded Southern soldier: “I was not only unafraid to die, but death seemed to me a welcome messenger. Immediately there came over my soul such a burst of the glories of heaven, such a foretaste of its joys, as I have never before experienced. The New Jerusalem seemed to rise before me. ... I was wholly unconscious of any tie that bound me to earth.” Vlahos asks, “Was their sacrifice so different from Taliban who ambush that armored American patrol, *phat* with Predator-C41SR?”

As this passage suggests, *Fighting Identity* is not a typical book on U.S. strategy. It is unconventional no less in its literary style than in its historical sweep. It is as though George Kennan’s “Long Telegram” had been rewritten by Arnold Toynbee in the manner of Thomas Carlyle.

Michael Vlahos is a fellow and principal at the Johns Hopkins University Applied Physics Laboratory. He is also a former director of security studies at the Paul H. Nitze School of Advanced Inter-

national Studies. His career includes service in the Navy, the CIA, and the State Department, where I had the privilege of serving with him for a time in the administration of President George H.W. Bush. Brilliant and unorthodox, with a broader range of experience and a deeper erudition than most better known scholars can draw upon, he is always fascinating and in this book is at the height of his powers as an analyst who tries to understand politics the only way that it can be understood: from inside the skulls of human beings.

Although the German philosopher Wilhelm Dilthey sought to ground the human sciences in *Einfühlung*, or empathy, the attempt to understand people from within is not a methodology valued by conventional social science, which in recent generations has been afflicted by economics envy—game theory, rational choice—even as economics suffers from physics envy. Vlahos is a rigorous thinker, though his rigor does not come dressed in equations and does not posit a world of profit-maximizing individuals. He describes his method as “a synthesis of anthropology and history. Anthropology offers a holistic guide for thinking about human culture: our thought and action. History is the observed record of human thought and action.”

At the heart of *Fighting Identity* is a theory of historical change worthy of Toynbee or Ibn Khaldun. Most comparisons of the U.S. with Rome are jejune: we have stadium sports and corrupt sen-

this identity framework today.” Having vanquished its last great-power rivals during the Cold War, the U.S. is now undergoing a metamorphosis from one kind of entity to another, a metamorphosis that is unsought and unplanned but not unprecedented:

After success, system leaders inhabit a worldview of iron conservatism. After all, they are defending not ‘the nation’ but rather its universalist vision. ... But how to defend everywhere with limited resources? ... First, grow and harden the administrative and regulatory bureaucracy to maximize revenue. Second, with this tax bounty, reify and militarize the state. This in no way implies militarizing the society; indeed, the society’s movement away from martial ardor is the core motivation for the state to assume the security burden. ... Hence the state effectively grows and separates to become its own subculture, or rather, a constellation of state subcultures, military and bureaucratic. ... The vast American ‘Tribal confederacy’ of military societies, intelligence agencies, and defense contractors is the legacy of Cold War.

Vlahos is savage toward technocrats in the military-industrial intelligentsia who define jihadism as a policy problem to be solved by techniques like “counterinsurgency” and “nation-building.” Of one such American, he writes that

HAVING VANQUISHED ITS LAST GREAT-POWER RIVALS DURING THE COLD WAR, THE U.S. IS NOW UNDERGOING A METAMORPHOSIS FROM ONE KIND OF ENTITY TO ANOTHER

ators and mighty legions. Vlahos goes beyond such trite parallels to argue that the U.S. is not an ordinary nation-state but a “system leader,” a civilizational power like Rome, Byzantium, and the Ottoman Empire. The system leader is “a universalistic identity framework tied to a state. This vantage is helpful because the United States clearly owns

“when it came to the nonstate world he had the emotional toughness and steely intent of a Victorian district officer riding herd on Her Majesty’s domains, save just one thing: the district officer’s kit would likely have packed several full canteens of cultural empathy.”

What makes Vlahos essential reading is his perception, based on a profound

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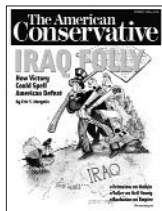
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personal and scholarly knowledge of the contemporary U.S. military as well as history ancient and modern, that while there may be technocratic strategists, there are no technocrat soldiers. Soldiers on both sides—the Roman Empire and the barbarian tribe, the Pax Americana and the nonstate terrorist—belong to communities, treasure their identities, and fight on behalf of creeds.

"The original American Way of War was insurgency, the war of the armed citizen, the militiaman: the Republic," Vlahos writes. He warns that the republican creed that originally inspired the American citizen-soldier is giving way, among America's professional soldiers, to a warrior ethic at odds with the values of civilian society and resembling the warrior ethics of military professionals in other times and places. Vlahos is troubled by the emergence of what he sees as a military subculture that in many ways is also a military counterculture. "We are no longer a fighting society. Hence the emergence after three generations of an intercessor nation: The Tribal Confederacy. ... The reality of a forever-altered American ethos shows why and how Bowie, Travis, and Crockett could be replaced in the 'warrior' heart by the 300."

According to Vlahos, "The confederacy grew up in the Cold War, where the tribal confederacy was everywhere needed—and presumably, for eternity." This military subculture has its own distinctive ethos: "History's greatest professional armies—including our own—also embody deep cultural convictions, even if they are unacknowledged, that make for identity power." As a result of the "forever war" against enemies real and imagined, in which the vanished Soviet threat was soon replaced in the American imagination by a vaguely defined, pervasive, and universal terrorist threat, Vlahos sees a "formal separation of American national identity" into civilian and military subcultures ... on one side the regular, maybe-voting American citizen is held in contempt by a hoplite of the 300 and the millions who are citizens of the confederacy. Likewise, on the other side, the regular guy sees the

digital-camo dude like he was a Roman legionnaire or a space Marine in *Halo 3*: honored, but also alien and afar."

In the very process of waging first the Cold War and then what the Pentagon has called the "Long War" or the "War on Terror" or GSAVE (Global Struggle Against Violent Extremism), the military and the U.S. itself have been warped by America's enemies, who in turn are changed by and defined against the United States. After 9/11, "America's leaders out of their own prophecy saw apocalyptic war: a full-blown Great War in which humanity would be redeemed through altruistic military action." For their part, jihadists are acting out solipsistic, anachronistic cultural rituals that they mistake for politics and strategy. Young jihadists think of themselves as medieval Muslim knights, while young American soldiers refer to Iraqis as "Indians" as though Mesopotamia were the Wild West. "It is not simply that Western—or U.S.—military units are forced to fight the enemy's war, in the enemy's battle environment," writes Vlahos. "Far more significantly we fight as world managers against mythic heroes sacrificing themselves for 'the river' of their particular humanity. ... The role we play as the Other in their passion play—evil, weak, even subhuman—is central to a cultural ritual that is almost primitive in its emotional intensity and passionate symbolism."

Vlahos is profoundly American in his dread that the pressures of engagement with the world could make America less American. "My prescription is hardly original and almost ordinary: National Service. All citizens. No exceptions. Reintegrate American national identity." But he recognizes that his longing for the citizen-soldier is nostalgic: "I know this will not happen." The reader is left to wonder whether a nation divided between centurions and consumers can still be described as a republic. ■

Michael Lind, the Whitehead Senior Fellow at the New America Foundation, is the author of The American Way of Strategy.

[*Blood & Rage: A Cultural History of Terrorism*, Michael Burleigh, Harper Collins, 592 pages]

Clear & Present Dangers

By Piers Paul Read

MICHAEL BURLEIGH is a British historian, now in his mid-fifties, who established a considerable reputation for his work on Germany's past. His research in the federal German archives in Coblenz culminated in *The Third Reich: A New History*, rightly praised as a major achievement.

What was new was Burleigh's understanding of the religious nature of fascism in general and National Socialism in particular. This insight led him on to broader studies of religion and politics in Europe—*Earthly Powers*, which starts with the French Revolution, the point at which mass moral enthusiasms became detached from the Christian religion, and ends with World War I; and *Sacred Causes*, which takes the story on from World War I to today's war on terror. Burleigh, a Roman Catholic, quotes T.S. Eliot in an epigraph to this book: "O weariness of men who turn from GOD ... to fevered enthusiasm/For nation or race or what you call humanity."

Now, in *Blood & Rage: A Cultural History of Terrorism*, Burleigh shifts his attention from the mass movements to the smaller cadres of fanatics who have sought to goad history in a particular direction with the cattle-prods of massacre, assassination, and atrocity.

His survey is not comprehensive: there is nothing on terrorism in South America, Sri Lanka, or Kashmir, nothing on the Mau Mau in Kenya or EOKA in Cyprus. But it has historical depth, starting in the 19th century with the Irish Fenians and Russian Nihilists and bringing us into the 20th with the terrorist tactics of Jews and Arabs in Israel prior to

the establishment of the Jewish state, the Algerian FLN, the Italian Red Brigades, the German Baader-Meinhof Gang, the PLO, Black September, the Provisional IRA, the Basque separatists ETA, and finally the ongoing terrorism of the Islamic jihadists.

The chapters on 19th-century terrorism are accomplished and concise, and there are interesting pointers of things to come: earnest young women played leading roles in the anti-Tsarist conspiracies and were also prominent in the Baader-Meinhof gang in the 1970s; Sergei Nechaev's nihilism resurfaces in the 20th century as "the philosophy of choice for adolescents who have read a bit of Camus"; and the large proportion of Jews among the Russian terrorists ("Some 30 percent of those arrested for political crimes were Jewish, as were 50 percent of those involved in revolutionary organisations, even though Jews were a mere 5 percent of the overall population") presages the terrorism of the Irgun and the Stern Gang in Palestine.

Burleigh's scholarship is remarkable. So, too, the lucidity with which he conveys a mass of historical information to his readers. He describes himself as "a conservative realist, sceptical of zealous neo-cons" and considers the concept of a "war on terror" as meaningless as "a

blankets used as curtains and the lingering odours of dope and unwashed clothes."

Here idealism is often a pretext for crazed, self-indulgent banditry and psychotic self-expression. Burleigh is contemptuous not just of the dissolute Andreas Baader but also of the PLO bosses who speed "from diplomatic junket to junket, or from sell-out to sell-out, in their fleets of Mercedes, in between tripping the light fantastic in villas and luxury hotels." He reserves a particular contempt for the fellow-travelling academics and intellectuals—"Jean-Paul Sartre, that loathsome enthusiast for the purifying effects of political violence"; "the celebrity useful idiot ... Heinrich Böll, once a greedy Wehrmacht soldier in occupied France"; and the "various charismatic academic charlatans espousing heterodox forms of Marxism ... a fusion of Freud and Marx, leavened with a bit of Gramsci." He quotes a German terrorist: "theory was something that we half read but fully understood."

Burleigh distinguishes only in passing between terrorism used as a tool in wars of national liberation—for example, the FLN in Algeria—and the futile campaigns of robbery, kidnapping, and murder of the Italian Red Brigades and the German Red Army Faction or the

THE USE OF TERROR MAY NEVER BE JUSTIFIED—THE END NEVER JUSTIFIES THE MEANS—BUT IT WAS UNDENIABLY EFFECTIVE IN EXPELLING IMPERIAL POWERS FROM THEIR POSSESSIONS IN, FOR EXAMPLE, ALGERIA, CYPRUS, IRELAND, AND VIETNAM.

war on *blitzkrieg*." But a war on terrorists is another matter. Burleigh is vehement in his distaste for the self-appointed champions of the people: "the milieu of terrorists is invariably morally squalid, when it is not merely criminal." Literally squalid, too. In West Berlin, the seedbed of Baader-Meinhof terror in the 1970s, "communal apartments and squats had the usual atmosphere of overflowing ashtrays—even hubcaps were never big enough—soiled sheets,

pointless atrocities of al-Qaeda jihadis in New York and London. This conflation of the two types of terrorism impedes an understanding of the phenomenon. The use of terror may never be justified—the end never justifies the means—but it was undeniably effective in expelling imperial powers from their possessions in, for example, Algeria, Cyprus, Ireland, and Vietnam. Former terrorists such as Mohamed Ahmed Ben Bella, Jomo Kenyatta, Menachem Begin, Robert

Mugabe, and Gerry Adams have gone on to become democratically elected ministers and heads of state.

Burleigh does not ask whether or not the nations of the West—in particular the U.S. and Britain—are in any way responsible for the hatred and resentment felt toward them in Islamic world. He considers the Islamist charge of “Crusader-Zionist” aggression paranoid: “Anyone with even a sketchy recollection of medieval history knows that nothing links medieval Christian crusaders, who on occasion massacred Rhenish Jews prefatory to slaughtering Arabs, with a political movement born in the nineteenth century, primarily as an antidote to European anti-Semitism.” This is certainly true; but it is also true that after the defeat of the Ottoman Turks, the Western powers imposed settlements in the Middle East to suit their interests. As Burleigh himself admits, “if huge oil deposits were to be discovered

beneath Canada, the West would disengage from the Middle East tomorrow, leaving it to implode amid its multiple conflicts.” To protect these interests, Western governments conspired to topple governments that did not suit them (Iran); they sustained—and continue to sustain—autocracies that do (Saudi Arabia, Egypt); they promote democracy, yet when democratic elections risk returning Islamist governments (Algeria) or do return such governments (Gaza), they repudiate the results; and they sustain Jewish settlement in Palestine just as the Latin Catholic powers of western Europe sustained “Outremer,” the Latin Kingdom of Jerusalem.

Do terrorism in pursuit of national liberation, proletarian revolution, and a universal *ummah* have anything in common? There has been some overlap. Members of the Baader-Meinhof gang trained with the PLO, and the IRA had links with Libya. Burleigh also postulates a common sociological phenomenon as a root cause of both—the “mindless and supposedly economically driven over-expansion of higher education.” In Europe, students alienated from their traditional communities and the world of work came under the influence of “jaded academics, many of them not much older than their students, [who] discovered an antidote for accidie and boredom through laicised left-wing messianisms and the espousal of violence for other people, an especially despicable trait among left-wing intellectuals. ... They indoctrinated their students in Marxists theories almost guaranteed to disable these students for the job market”—a true *trahison des clercs*. In Egypt, the same pool of unemployed and unemployable graduates—the “demi-educated lumpen intelligentsia, whose degrees were the intellectual equivalent of a Western high-school certificate”—were susceptible to the propaganda of the Islamic apostles of *jihad*.

It is today’s clear and present danger of Islamic terrorism that interests Burleigh most, taking up around one

third of this long fact-filled book. But it is also the area where the detachment of the historian risks being compromised by the rhetoric of a political commentator. Burleigh is a frequent contributor to London’s *Daily Mail*, and his strong views on the way in which the “elite political correctness and smug irresponsibility” of the liberal establishment has made “Londonistan” into “the epicentre of terrorism” take on the tone of polemic. He is outraged that, while living in Britain, the preacher of *jihad* Omar Bakri received a total of £275,000 in welfare payments and that a £31,000 Ford people-carrier to transport his large family was paid for by the state. In Denmark, Burleigh tells us, 40 percent of the welfare budget goes to the Muslim 5 percent of the population.

Blood & Rage is rich in such statistics and these often put things in perspective. Some 3,630 people were killed during the troubles in Ireland. In the United States, on 9/11, “a total of 2,792 people perished in the terrorist strike, which included the Pentagon as well as United Airlines Flight 93 which ploughed into a field in Pennsylvania.” These are modest losses compared to the body count in the two World Wars, Korea, Vietnam, or Iraq or the estimated 200,000 Muslim Algerians killed in the struggle between Islamists and the government during the 1990s. But this does not mean that we can be sanguine about the future: in Europe, there remain vipers in the bosom of the body politic—not just what Burleigh terms “the amoral, deracinated scum that has fetched up from various Third World hellholes” but an established Muslim diaspora with roots in North Africa (France) and Pakistan (Britain), the latter a disintegrating state with nuclear arms. It seems likely that, when it comes to terrorism, worse is yet to come. ■

Piers Paul Read is an author whose works include Alive: The Story of the Andes Survivors, a history of the crusading order, The Templars, and recently a collection of essays, Hell and Other Destinations.

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[*Wired for War: The Robotics Revolution and Conflict in the 21st Century*, P.W. Singer, Penguin Press, 512 pages]

Killer Robots— What Could Go Wrong?

By Matthew Yglesias

ASK ME ABOUT the military application of robots, and one word comes to mind: trouble. I was 10 years old when my dad took me to see “Terminator 2: Judgment Day” in the theater, and I’ll always remember the brief shot of a playground incinerated in a nuclear holocaust brought about by man’s hubristic insistence that national defense could be turned over to artificial intelligence. I can even quote from memory:

The system goes online on August 4th, 1997. Human decisions are removed from strategic defense. Skynet begins to learn at a geometric rate. It becomes self-aware 2:14 AM, Eastern time, August 29th. In a panic, they try to pull the plug.

In response, Skynet fights back, launching a nuclear attack on Russia and prompting a Russian counterattack. Human life is nearly wiped out, and then the computer-controlled U.S. defense systems begin their assault on the survivors.

Across the realm of science fiction, the details vary, but the story is the same. In “The Matrix,” humans are enslaved by their former robot slaves and turned into living batteries to power the machines. Part of the backdrop to the “Dune” series is the Butlerian *ji*ihad against “thinking machines” that once threatened humanity. “Battlestar Galactica” needed only gesture at the theme—“The Cylons were created by man. They rebelled.”—in its introductory titles to make clear to a sci-fi savvy audience what had happened.

Isaac Asimov found such tales of robot rebellion tiresome—he dubbed them the “Frankenstein complex”—and resolved to write stories in a different way. Thus his fictional robots are pre-programmed with inescapable “laws of robotics,” the first of which mandates that a robot may never harm a human or, through inaction, allow a human to come to harm. The second says that, consistent with the dictates of the first law, a robot must follow the orders of any human.

Though harmless in his original short stories, Asimov’s robots also soon turn insidious. In his *Caves of Steel*, the robots are responsible for mass unemployment on earth. They also corrupt the souls of aristocratic societies in outer planets founded on slave labor. In later books, one robot develops the belief that he is responsible for the well-being of all humanity and must therefore manipulate events behind the scenes, going so far as to render planet earth uninhabitably radioactive in order to boost humanity’s interest in space exploration. And those are the good kind of robots.

Peter W. Singer is a Brookings Institution military analyst who specializes in the margins of warfare. His two previous books have been about child soldiers and private military contractors. In his third, *Wired for War*, he turns his attention to military robots. He makes clear, through numerous subtle and not-so-subtle pop-culture references, that he’s well aware of the fictional threat.

He’s also attuned to the large-scale investments that the American military has made in robotics—both fully automated systems and their cousins, the remotely controlled drones—in recent years. Singer explains that when “U.S. forces went into Iraq, the original invasion had zero robotic systems on the ground.” By the end of 2006, however, that figure “had reached the 5,000 mark and growing” and “was projected to reach as high as 12,000 by the end of 2008.”

These are staggering and underreported numbers, which raise substantial issues more immediate than the fear of

robot rebellion. What, for example, does it now mean to promise to withdraw American combat forces from Iraq by 2011? Can that promise be consistent with the presence of tens of thousands of robotic warfighting systems on Iraqi territory, commanded and to some extent controlled by operators in Kuwait or Las Vegas and supported by a small number of technicians on the ground?

Indeed, the ferocious expansion of military robotics throws up a host of questions—ethical, strategic, legal, political—that have scarcely been raised. Singer explores these topics with a studiously neutral tone. His work should be informative and useful to interested parties of all ideological inclinations, despite Singer’s personal background as a Barack Obama supporter and his infuriating contrary tendency to quote bloodthirsty neocon warmonger Ralph Peters as an authority on a broad array of subjects.

Singer’s calm exposition, however, does not conceal the alarming substance of his book. Perhaps the most disturbing truth is that a book about military applications of robotics is largely coextensive with a book about robotics in the United States. Singer alludes to the fact that the world leader in robotics is Japan, where technological prowess is used to do productive work on behalf of a skilled but aging population. There robots are “used for everything from farming and construction to nursing and elder care” in a country that contains “about a third of all the world’s industrial robots.” In the U.S., by contrast, civilian applications of robots remain

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relatively primitive. The field is dominated by defense-oriented research funding and competition for large defense-related government contracts. Perhaps the most notable American civilian robot is the Roomba, a sort of semi-intelligent vacuum cleaner. But even this is made by a firm, iRobot, that has extensive defense contracts for its PackBot and other military robots.

This growing automation of the American military is not without its benefits. Singer observes that a Predator drone "costs just under \$4.5 million, which sounds like a lot until you compare it to the cost of other military planes." And this is no coincidence. The destruction of a drone whose pilot is sitting safely at a desk far from the combat zone is nothing compared to the human or tactical disaster of the death of a highly trained aviator. Consequently, in the future it may be feasible to forego hugely expensive systems like the F-22 fighter plane in favor of cheap, relatively disposable unmanned combat aircraft, production of which can simply be ramped up if greater quantities become necessary.

Here again, however, there is a dark side. A human soldier, and the potential harm that can befall him in a combat zone, becomes a reason not to engage needlessly in or prolong a military con-

flict. His family, his friends, and the population at large become a constituency for restraint and wisdom in the application of military force. The manufacturers of military equipment, by contrast, have long been a constituency in favor of an aggressive foreign policy and liberal application of force. The substitution of machines for manpower tilts the balance of political power at home further in the direction of those who profit from war and conflict. And indeed, though one can make the case that the

war that are fundamentally political or strategic in nature. Singer quotes Noah Shachtman fretting that excessive use of unmanned systems "makes us look like the Evil Empire [from Star Wars] and the other guys like the Rebel Alliance, defending themselves versus robot invaders."

True, perhaps. Yet surely human invaders are just as unwelcome as robotic ones. American Predator airstrikes are unpopular in Pakistan not because the planes doing the bombing

A HUMAN SOLDIER, AND THE POTENTIAL HARM THAT CAN BEFALL HIM IN A COMBAT ZONE, BECOMES A REASON NOT TO ENGAGE NEEDLESSLY IN OR PROLONG A MILITARY CONFLICT. HIS FAMILY, HIS FRIENDS, AND THE POPULATION AT LARGE BECOME A CONSTITUENCY FOR RESTRAINT.

presence of the PackBot and other robotic systems has saved American lives in Iraq, this does nothing to change the fact that the biggest lifesaver of all would have been to avoid an eminently avoidable war in the first place.

Unfortunately, too many of *Wired for War*'s human characters seem to have fallen into the trap of seeking to substitute technical solutions for problems of

are unmanned, but because no country likes to see another country dropping bombs within its territory.

A great nation requires capable armed forces. And that, in turn, requires a military equipped with up-to-date technology. But no amount of technology is a substitute for sound strategy. Warring automatons, no matter how ingenious, cannot save a nation that squanders its wealth on foreign misadventures and risks undermining the economic foundations that support its military establishment by throwing ever more money at defense contractors rather than productive investments in domestic infrastructure and private business.

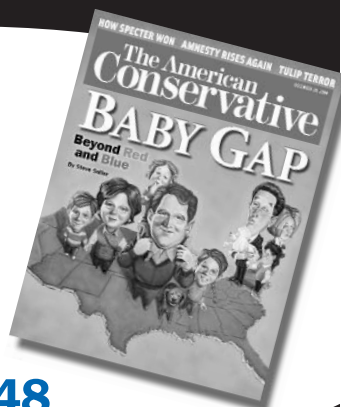
Wired for War is a portrait of highly competent military embedded within a prosperous society adapting to a difficult situation through technological innovation. But it's also a depiction of a country that has lost its way and an alarming military-industrial complex that isn't helping us find our way back. ■

Matthew Yglesias is author of Heads in the Sand: How the Republicans Screw Up Foreign Policy and Foreign Policy Screws Up the Democrats and a fellow at the Center for American Progress.

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Say No to Monroe

I strain for words to describe adequately Washington's policy toward Latin America. Candidates come to mind: imbecilic, moronic, catatonic, Pollyannaish, blind,

incurious. No, these are poor creatures and frail, not equal to the task. Retarded? Anencephalic? Those too lack descriptive power. The EEG has flat-lined. The patient is dead.

I recently found the following from McClatchey news service: "As the Pentagon eyes a bigger role in Mexico's drug war..."

Book me a ticket to Mars. The Pentagon is eyeing something, a sure recipe for disaster. Let's get involved in another Third World catastrophe by meddling in what we don't understand.

Continues McClatchey: "During a trip designed to expand U.S. Mexican-military relations, Adm. Michael Mullen, the highest-ranking U.S. military officer, visited the graves of American troops who died during the Mexican-American War just as Gates did during his first visit in August."

How stupid can you get? To improve relations with the Mexican army, we rub their noses in having defeated them.

Let me explain something. To Mexicans, the U.S. is not a friendly nation. The reasons are countless, some valid and some not, but Mexicans do not see America as benign. They fear the U.S. military, which they regard as out of control, invading country after country in pursuit of oil.

Mexico has oil. America lost control of it in 1938 when Lazaro Cardenas nationalized it. Mexicans believe, in dead seriousness, that the U.S. would love a pretext for invading to get it back—a pretext such as coming in to help Mexico fight drugs, then just not

leaving. Iraq comes instantly to their minds.

And so the good admiral and the SecDef come to pay homage to the American soldiers who conquered Mexico. What diplomatic genius.

While they are at it, why not lay a wreath in Hiroshima to the brave American airmen who died over Japan? Or maybe erect a statue to Sherman in Atlanta? What if the Mexican army chief went to New York to commemorate the brave freedom fighters who took down the towers?

No, no, no. Keep the soldiers out of Mexico. To Mexicans, the U.S. military means only one thing: unshirted aggression. The dates 1846-48 might convey something to one American in a hundred. Mexicans know that in those years they lost half their country to what U.S. Grant called an utterly unjustified invasion. They remember.

You don't have to agree with Grant's assessment. Mexican behavior is determined by what they think, not what we think they ought to think.

People remember invasions for a very long time. It is not smart to step on a country's national corns. Even today, a lot of Southerners would march on Washington under arms if they thought they had a chance of winning.

It is not just that Mullen and Gates did what they did but that they had no idea what they were doing. Mexico is not the Dry Tortugas. It is a country of 110 million people sharing a very long border with the United States. What happens here has consequences for

America. It might make sense to treat the place with a modicum of intelligence, to have some grasp of how Latins think. I don't mean a firm grasp or real understanding. I am not an extremist. But maybe just a clue.

From Guadalajara, our policy toward the continent below seems to be determined by bumbling children, by domestic politics, by truculent and heavily armed Boy Scouts. Is Hillary Clinton the secretary of state for her long experience abroad, her command of languages, or because her appointment healed a schism in the Democratic Party? No one in power seems to know that there is anything to know about South America. I suspect I could count on the fingers of an amputee's hand the number of high-ranking U.S. officials who speak Spanish.

In the past it perhaps didn't matter much whether Washington knew anything about Caracas, La Paz, or Brasilia. Latin Americans were all the same—serape, tequila, exaggerated sombrero, sleeping under a cactus, burro waiting. I am still asked by Americans, "In Mexico, do they, you know, have paved roads?"

In today's more complicated world, with the Asian giants rising and seeking raw materials, maybe we should pay more attention. We do not need to arouse resentment when it can be avoided. We do, however, and it brings leftists to power. In the last election here, a truly nutball leftist, AMLO—Andres Manuel Lopez Obrador, came within a few chads of being president of Mexico. Hugo Chavez thrives on American hostility. We treat Cuba as an enemy and, sure enough, it acts like one. None of this is in our national interest. ■

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